THE CALM BEFORE THE STORM: OVERSIGHT OF THE SBA'S DISASTER LOAN PROGRAM

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BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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HOUSE COMMITTEE ON SMALL BUSINESS

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THE CALM BEFORE THE STORM: OVERSIGHT OF THE SBA'S DISASTER LOAN PROGRAM

WEDNESDAY, JULY 8, 2015

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Hanna, Gibson, Brat, Radewagen, Knight, Curbelo, Bost, Hardy, Kelly, Velázquez, Hahn, Payne, Meng, Lawrence, Takai, Clarke, Adams, and Moulton.

Chairman CHABOT. Good morning. The Committee will come to order.

Before we begin, I would like to make a very nice announcement, and that is the fact that before we get started I want to take a moment to welcome our newest member, Congressman Trent Kelly, who represents Mississippi's First Congressional District, and he is joining us on the Small Business Committee. This will be his first hearing today.

He is certainly no stranger to public service. In addition to serving Mississippi as a district attorney for the past number of years, Congressman Kelly is also Colonel Trent Kelly. I hear he is quickly closing in on 30 years in the Mississippi Army National Guard, and that is quite a record of service, and we appreciate your service, Congressman Kelly. Welcome to the Small Business Committee, and we are happy to have you. And we are all looking forward to working with you and getting to know you better and letting you get to know us better, which will be a wonderful experience I am sure. So, but thank you very much, and we are real happy to have you.

We will go ahead and move on to one other introduction. Before I give my opening statement, we are going to go ahead and introduce another member, a witness we have this morning, if I can find it. Okay.

We are pleased to recognize this morning our colleague, Congressman Chris Smith of New Jersey. I have had the pleasure of serving with Chris on the Foreign Affairs Committee for 19 years now, and for those of you who do not serve on that Committee, I can tell you that he is one of the hardest working Members of Congress. A leader on foreign policy, veterans issues, and a good friend, and I am pleased to welcome him here today.

We recognize that our colleague has a very busy schedule, as we all do, and has taken time away from it to testify this morning, so we will get right to it. Unless anybody has any pressing questions, there is generally the comity that we do not—and that is c-o-m-i-t-y, not the other comedy—that we generally do not ask our colleagues questions. So we will get to the second panel then.

So without further ado, Mr. Smith, you are recognized for five minutes.

STATEMENT OF THE HONORABLE CHRIS SMITH, (NJ-04), UNITED STATES HOUSE OF REPRESENTATIVES

Mr. SMITH. Thank you so very much, Chairman Chabot. And likewise, a good and extraordinarily effective friend. We do serve on the Foreign Affairs Committee, as you said, and I have lost track of the number of times that we have been hand-in-hand, arm-in-arm, fighting on behalf of victims for human rights issues. You, as Asia Committee, last year, last Congress, and Nydia Velázquez, your ranking member, we have worked very hard. Jacob Ostreicher and some of the other human rights issues. So it is good to see such good friends serving in two important positions on behalf of our nation's small business. So thank you for this opportunity to be here.

You know, I will just note parenthetically, in 1981, my first assignment was to the Foreign Affairs Committee chaired by Parren Mitchell and Ranking Member Joe McDade. Small business. What did I say? Oh, Small Business with Parren Mitchell and Joe McDade. So I know the good work that you do, and I appreciate it. We all do.

Let me just say that it has been more than two and a half years since Super Storm Sandy devastated New York and New Jersey, and some of my constituents, especially those in hard-hit Monmouth and Ocean Counties, are still recovering today. It is not over for them. The nightmare continues.

As many of you are well aware, the federal response was far from perfect. The Federal Emergency Management Agency (FEMA) recently reopened all Sandy-related flood claims due to widespread fraud and a complete lack of oversight over the National Flood Insurance Program.

Bipartisan delegations, as I think you know—and Nydia, you were certainly a part of this—from New Jersey and New York, fought hard to secure critical funding from the U.S. Department of Housing and Urban Development. Despite huge remaining unmet needs, HUD chose only to make nearly a billion dollars in Sandy supplemental funding through the Community Development Block Grant Disaster Relief Program available to applicants unaffected by Sandy.

With that in mind, I am here today to shed some light on a hardship, an emerging problem that really has to be rectified, now faced by homeowners who were actively encouraged, and in many cases pressured, to apply for Small Business Administration Disaster Assistance. They did so not only to determine their eligibility for home disaster loans, but also to qualify for additional future relief. Due to a complete lack of information, however, and disclosure in the loan process, many Sandy victims now find themselves ineli-

gible—I repeat, ineligible—for further relief through various grant programs.

To illustrate, and I do have a letter from a constituent of mine, from Manasquan, who said that they liquidated—it was so bad, and they wanted to get their home back into a working order, that they liquidated their retirement savings to pay down debts taken out to finance their children's college education, just to qualify for a home disaster loan. This not only decimated their savings, but also resulted in a substantial tax penalty of $52,000 for the early retirement withdrawal. They subsequently applied for relief through New Jersey's Reconstruction Rehabilitation Elevation and Mitigation Program (RREM)—that is the HUD program—only to be shocked to learn—and I mean shocked. When they called my office, they could not believe that this was happening—of their ineligibility for a grant reward solely because they had qualified for and accepted the SBA loan, a circumstance that they were never informed about during the loan process.

As they emphasized in their letter to me, this begs the question, if they had been fully informed of potential consequences, would they have taken the SBA loan? And the answer is a decided no. With more than 32,000 SBA disaster home loans approved following Sandy, there is no telling how many homeowners have found themselves in a similar situation. I am sure that today's witnesses can speak to the pile of papers presented to the homeowner during the loan closing, and it will be helpful to hear whether SBA had any discussions with HUD and their state grantees on this issue.

While HUD provided guidance in July of 2013, allowing grantees to provide assistance to Sandy victims who had qualified but declined an SBA loan, they have done nothing to assist the families who acted in good faith to immediately begin the rebuilding process.

Last month, I sent a letter to both SBA and HUD requesting further guidance, specifically permitting CD, BG, DR grantees to provide grant awards to Sandy victims who previously accepted an SBA loan, at least for the purposes of paying down that loan. I also asked that this matter be referred to the SBA's Office of Inspector General, to determine what action or inaction led to so many Sandy victims being left in the dark regarding this critical information.

This very issue should not have been overlooked by SBA, nor should it have come as a surprise. Following the Gulf hurricanes in 2005 and Midwest flooding in 2008, SBA's OIG released a report entitled, and I quote, "SBA's role in addressing duplication of benefits between SBA disaster loans and community development block grants detailing a serious lack of communication and agreement between federal agencies regarding the Stafford Act's duplication of benefit requirements."

If the Federal Government itself has failed to understand the implications of these requirements, how can they be counted on to explain it to disaster survivors? While SBA has taken steps to improve its coordination with FEMA and HUD, it has failed to communicate with the survivors it is tasked to assist. Homeowners considering home disaster loans must be fully aware of their potential preclusion from further assistance. In post-storm chaos, these loans

were the primary option for homeowners needing to rebuild. And again, if you did not rebuild quickly, the water damage got worse. The black mold got worse. And when there was no sense of what might be offered in the future, they grabbed the SBA loan, only to find again they were precluded from any other further grant—not loan, but grant—in the future. Those who accepted home disaster loans should not, as I said, be precluded from future HUD assistance.

Sandy victims made great sacrifices to rebuild and recover, and unfortunately, did so with incomplete or misinformation through no fault of their own. No two disasters are the same and the recovery process will vary based on the level of federal support provided, but we must not continue to ignore the lessons learned from these terrible experience. It is egregious that these Sandy victims have been put—what they have been put through, and they must be provided an equitable solution. And again, this on top of the National Flood Insurance problem debacle just begs the question we have got to get this right.

I would ask that my letter, Mr. Chairman, be included in the record, as well as an Associated Press article entitled, "Buyer's remorse: Loans impacting grant money for Sandy victims," that was put over the wire last December.

Chairman CHABOT. Without objection, so ordered.

Mr. SMITH. Appreciate it.

Chairman CHABOT. Thank you very much. And we thank you greatly, Mr. Smith, for your testimony. You are welcome to stick around. If you have other obligations, you are welcome to tend to those as well, and we will be having our next panel in just a few moments.

Thank you very much, and we will now move to my and the Ranking Member's opening statements before getting to the panel.

A natural disaster exposes us to the worst of nature, yet in some powerful way it brings out oftentimes the best in people. Communities ban together, neighbors help neighbors, and volunteers donate their time and energy, all in an effort to rebuild and to get their lives back together.

In the last decade, America has faced some of its worst natural disasters with Hurricane Katrina in 2005 and more recently, Hurricane Sandy in 2012. While these disasters struck certain areas of the country, every Member on this Committee has experienced some disaster within their district I am sure, because these events do not limit themselves to one region, or one state, or one congressional district.

In my home state of Ohio, we have had our fair share of devastating tornadoes and severe floods and a number of other natural disasters. In the aftermath of any disaster, it is vital that victims are able to rebuild and return to their normal lives as soon as possible.

While most individuals are aware of the Federal Emergency Management Agency (FEMA) and its role in disaster assistance immediately following a disaster, most are unaware that longer term recovery assistance is provided by the Small Business Administration (SBA). In this role, the SBA touches more than just small firms. The SBA helps homeowners and renters and businesses and

nonprofits by providing various long-term recovery loans. Given this, it is imperative that the SBA's Disaster Loan Program operate as efficiently and effectively as possible. On this Committee, we are tasked with evaluating the SBA's ability to properly respond to the needs of disaster victims and ensuring that the SBA is prepared to handle whatever may be next.

It was clear that following Katrina the SBA's procedures needed change, but several years later, it appears that challenges still plagued the SBA in responding to Sandy. It is disheartening that the SBA is still not where we need them to be. While we certainly do not hope for another catastrophe, we know it will happen, and this Committee wants to make sure that the SBA, the Small Business Administration, is ready.

Today, we will discuss just how the SBA is doing in its mission to provide long-term disaster assistance. Our witnesses can hopefully shed light on the SBA's efforts. And as I said before, we appreciate Congressman Smith's addition to that attempt. And I want to thank our witnesses for taking time out of their busy schedules to be here, and we will introduce you very shortly, and we look forward to your testimony. And I will now yield to the Ranking Member for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Natural disasters profoundly disrupt our lives and affect tens of thousands of households every years. These unanticipated events leave families and small businesses facing significant costs when rebuilding. Typically, insurance covers monetary losses, but that is not always the case. Recognizing the gap in the market, Congress created the SBA Low Interest Disaster Loan Program in 1953. Over the past 62 years, SBA has responded to thousands of natural disasters, including several major storms. One of the worst was Super Story Sandy in 2012. When Sandy made landfall, the impact was particularly severe in New York City. The storm destroyed infrastructure, inundated thousands of homes with floodwater, and disrupted our vibrant small business community.

For small businesses in particular, the first few weeks following a natural disaster are a critical period. It is estimated that 40 percent of impacted businesses failed to fully recover. One major reason is the lack of capital to rebuild. As such, it is critical SBA process and disperse disaster loans quickly to maximize the likelihood small businesses will survive. Unfortunately, soon after Sandy struck, it became clear SBA's response was lacking. As processing delays mounted, the deficiencies in SBA's management of the Disaster Loan Program demanded a closer look from Congress.

In early 2013, the committee Democrats released a report on the application backlog and processing delays. We found small businesses waited 46 days to get their application processed by SBA, a threefold increase over previous Atlantic storms. To make matters worse, SBA had already been heavily criticized for its slow response to Hurricane Katrina, and made commitments to process applications in 21 days.

To build on those findings and fully understand the costs of the delays experienced by Sandy victims, I requested the GAO report we are focusing on today. GAO identified a number of reasons for the problems at SBA, including failing to quickly staff up, under-

estimating the number of electronic submissions, and failing to implement Private Disaster Loan Programs signed into law four years prior.

In 2008, bipartisan reforms were enacted by this Committee to help the Agency respond to large disasters by bringing in the private sector to meet loan demand. This included the Immediate Disaster Assistance Program, the Private Disaster Loan Program, and the Expedited Disaster Assistance Loan Program. It is likely one or more of these programs, if implemented before Sandy made landfall, could have injected much-needed capital into the community immediately after the storm. These private loan programs could have also helped free up SBA resources by handling the small dollar loan volume. SBA provided GAO with a number of reasons for its failure to timely process disaster loans following Super Storm Sandy; however, they were all self-created. Clearly, significant changes need to be made in SBA's administration of the Disaster Loan Program. It is unacceptable that Sandy victims have to wait 46 days or longer to get vital funding to rebuild their businesses.

I look forward to hearing from today's witnesses on the findings and recommendations contained in GAO's report.

Thank you, Mr. Chairman, and I yield back.

Chairman CHABOT. Thank you very much.

Thank you. The gentlelady yields back.

We would ask our witnesses if they would come on up to the table, please. We just have two this morning, and I will introduce them as they are approaching the bench.

Our first witness on the panel this morning will be Bill Shear, who is the Director of the Financial Markets and Community Investment team at the Government Accountability Office. We look forward to your testimony.

And our other witness will be James Rivera, who is the Associate Administrator for the Office of Disaster Assistance at the SBA, the Small Business Administration. In this role, Mr. Rivera is responsible for all aspects of the SBA Disaster Loan Program. And as I said, we appreciate you both being here today, and I will very briefly, and you are probably familiar with them already, but address our five-minute rule, which is basically you get five minutes to testify. The lighting system assists you in that somewhat. The yellow light will come on to let you know you have a minute to wrap up. The red light will come on and we would ask you to stay within that time if at all possible. We will give you a little leeway. So, and we also apply that same five-minute rule to ourselves, so it is reasonably fair.

So we will begin with you, Mr. Shear. You are recognized for five minutes.

STATEMENTS OF WILLIAM SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE; JAMES RIVERA, ASSOCIATE ADMINISTRATOR, OFFICE OF DISASTER ASSISTANCE, UNITED STATES SMALL BUSINESS ADMINISTRATION

STATEMENT OF WILLIAM SHEAR

Mr. SHEAR. Thank you.

Chairman Chabot, Ranking Member Velázquez, and members of the Committee, I am pleased to be here today to discuss the Small Business Administration's response to Hurricane Sandy, the costliest Atlantic storm since Hurricane Katrina in 2005.

Sandy made landfall in the United States on the New Jersey Shore on October 29, 2012. My testimony today is based on information in our September 2014 report on SBA's response to Hurricane Sandy, and includes updates on steps SBA has taken to address two recommendations from that report.

One recommendation related to better planning for high volumes of loan applications. Another recommendation related to evaluating lender feedback to inform SBA and Congress about challenges to implementing a new loan program and determining if statutory changes might be necessary to aid implementation.

First, with respect to timeliness. Following Hurricane Sandy, SBA did not meet its timeliness goal of 21 days for processing business loan applications. From receipt to loan decision, SBA averaged 45 days to process physical disaster loans, and 38 days for economic injury loans.

SBA did not expect early receipt of a high volume of loan applications and delayed increasing staffing, which in turn increased processing times. As of September 2014, SBA had not revised its disaster planning documents to reflect the effects that application volume and timing could have on staffing, resources, and forecasting models for future disasters. Since then, SBA has made updates to its disaster playbook.

Second, with respect to loan approval, withdrawal and cancellation rates compared to previous disasters, the loan approval rate after Sandy was not consistently higher or lower, but the application withdrawal and loan cancellation rates, which were 32 percent and 38 percent, respectively, were consistently higher than other disasters.

SBA approved 42 percent of business loan applications after Sandy. For Hurricane Sandy and for previous disasters, SBA primarily declined business loan applications because of applicants' lack of repayment ability and the applicants' credit history.

Third, SBA has not implemented the Guaranteed Disaster Loan Programs Congress mandated in 2008, including the Immediate Disaster Assistance Program (IDAP), a bridge loan program in which private sector lenders would provide disaster victims with loans up to $25,000. SBA has not conducted a formal documented evaluation of lender feedback to establish what implementation challenges the Agency might face and determine what, if any, statutory changes Congress could consider.

In June 2015, SBA provided us with documentation of additional outreach performed in October 2014, where lenders provided spe-

cific feedback regarding current statutory requirements and proposed program requirements. SBA has yet to adopt a plan for how and whether it will proceed with IDAP implementation or document the challenges it would face in implementing the program.

Chairman Chabot and Ranking Member Velázquez, this concludes my prepared statement. I would be glad to answer any questions.

Chairman CHABOT. Thank you very much.

Mr. Rivera, you are recognized for five minutes.

STATEMENT OF JAMES RIVERA

Mr. RIVERA. Good morning, Chairman Chabot, Ranking Member Velázquez, and distinguished members of the Committee. Thank you for inviting me to discuss SBA's Disaster Loan Program. SBA appreciates your strong support of the Agency's disaster operations.

SBA's Office of Disaster Assistance is responsible for providing affordable, timely, and accessible financial assistance following a disaster to businesses of all sizes, private nonprofit organizations, homeowners, and renters. This financial assistance is available in the form of low-interest long-term loans, and since SBA's inception, we have approved almost two million loans for more than $53 billion.

While SBA is not a traditional first responder agency, we are on the ground immediately following a disaster. SBA's primary focus is providing disaster loans as part of the recovery efforts in coordination with other government partners at all levels.

SBA offers home loans of up to $240,000 to help rebuild homes and up to $2 million for nonprofit and businesses of all sizes. SBA also offers Economic Injury Disaster Loans to small businesses, agricultural cooperatives, and many nonprofit organizations who have suffered economic injury caused by disaster. These loans provide needed working capital to a business or organization until normal operations can resume.

In recent years, we have made many improvements that have allowed us to better respond to disaster survivors, including streamlining application forms and implementing a redesigned electronic loan application, all of which have led to a more transparent and efficient application process. Over the past several years, SBA has seen significant increase in its electronic loan application activity.

In Fiscal Year 2011, 27 percent of SBA disaster applications were submitted online using ELA, compared to 83 percent this fiscal year. The continued increase in ELA activity reflects the improvements made by SBA to streamline its online application and ensure that disaster survivors have access to program information.

In 2014, SBA launched a new communication plan referred to as a three-step process. When seeking SBA disaster loan assistance, we describe the first step as how do you apply for a loan? The second step describes how we verify your property and process your loan application. And the third step is how we close and disburse and fund your loan.

The new strategy ensures that disaster survivors have a clearer understanding of steps involved when seeking SBA disaster loan assistance.

SBA made another improvement in its communications with disaster survivors in 2014 by increasing direct contacts with potential disaster applicants. SBA contacts all disaster survivors referred to by the Federal Emergency Management Agency to SBA by phone within 48 hours and informs them of disaster loan assistance and various ways to apply.

By increasing the number of direct contacts with potential disaster loan applicants, SBA helps ensure that disaster survivors are aware of all available assistance. SBA has established an accelerated approval process for both home and business loans. Based on set criteria, the new RAPID approval process allows us to expedite processing loans, and it has the potential to ease the stress on SBA's loan processing resources.

In coordination with the launch of the new RAPID approval process, SBA implemented a second regulatory change, which raised the unsecured loan limit under presidential disaster declarations from $14,000 to $25,000 on home and business physical loans, and from $5,000 to $25,000 on economic injury disaster loans for all declarations. The increased unsecured loan limit allows SBA to disburse more funds to disaster survivors faster, which helps speed up the recovery of businesses that offer critical services in communities that are in greater need of limited funds.

SBA has also established two separate tracks to process home and business loans in order to expedite loan processing. Earlier this month, we released an updated SOP (standard operating procedure) which is a complete rewrite and brings a back-to-basics approach of SBA disaster loan-making process. The refreshed SOP removed redundancies and streamlined the process for loan-making and disbursements by adding more flexible underwriting and guiding SBA staff to help businesses and homeowners. These changes should improve the overall customer experience for disaster survivors.

In response to Super Stormy Sandy, SBA approved more than $2.4 billion in disaster loans to help nearly 37,000 homeowners, renters, businesses, and nonprofit organizations recover and rebuild from disaster devastation. SBA responded to the needs of residents and business owners by deploying 695 disaster assistance workers and field inspectors to staff 248 disaster recovery centers located throughout the East Coast, during which time the SBA had more than 152,000 contacts in the field. Additionally, SBA's disaster customer service call center in Buffalo, New York, responded to over 212,000 calls with minimal wait times.

In closing, I appreciate the opportunity to update the Committee on SBA's Office of Disaster Assistance, and I look forward to answering any questions. Thank you.

Chairman CHABOT. Thank you.

I ask Ranking Member Velázquez——

Ms. VELÁZQUEZ. To go first?

Chairman CHABOT.—to go first.

Thank you, Mr. Chairman.

Mr. Rivera, SBA officials have stated that they will not begin regulatory work on the Private Disaster Loan Program or the expedited Disaster Assistance Program until IDAP is fully implemented. So my question to you is, is there anything in the Small

Business Disaster Response and Loan Improvements as of 2008 that says IDAP needs to be implemented before SBA can work on the others?

Mr. RIVERA. No, ma'am. There is not anything that stops us from executing these other programs.

Ms. VELÁZQUEZ. Are you aware that the act required the administrator to issue rules for both of these programs within one year? If so, why has SBA ignored its legal mandate?

Mr. RIVERA. So my understanding—you know, this guarantee loan program, we work in conjunction between the Office of Disaster Assistance and the Office of Capital Access. It is a guaranteed loan program with preferred lenders and with bank lenders from that perspective. The thought process behind this was to first pilot and implement the IDAP program for the immediate program, and see how that worked within the lending community. And then after that, you know, after we would take that process through, we would go to the other two programs.

We have promulgated——

Ms. VELÁZQUEZ. You are not answering my question. My question is why have you not begun the regulatory work on the Private Disaster Loan Program or expedited it. I understand that you are saying that IDAP—that you will not do that until IDAP is fully implemented.

My question to you is, in 2008, we passed legislation signed by the president, that gave the administrator one year to implement the program, more so when Congress in 2012, provided $3 million for a pilot program. What happened to that money? What did you do?

Mr. RIVERA. So the money part, I mean, it is not appropriated to a specific program from that perspective. You know, to be honest with you, Congresswoman, I do not know why the other two regulatory programs were not implemented. What I can do is I can check back with the Office of Capital Access, and we can get back to you for the record.

Ms. VELÁZQUEZ. Well, I guess you knew you were coming here, and you knew that I would be asking those questions because those are basic fundamental questions. Do you understand what it means for small businesses in lower Manhattan when Con Edison's plant blew up and there was no electricity, no power? Do you know how many children and mothers crossed the Williamsburg Bridge to come into Williamsburg to get groceries that they were not able to get because businesses had to shut down? Do you know what it means for small businesses to get access to $25,000 to keep their doors open?

Mr. RIVERA. Yes, ma'am. We are well aware of the——

Ms. VELÁZQUEZ. And that is why you have not implemented those programs? These are the tools that we provided you right after Katrina. That was a real disaster that required a monumental response and we failed the people. And again, this time, we provided the vehicles and mechanism.

Mr. Shear, is there is any explanation as to why this regulation and this program have not been implemented?

Mr. SHEAR. I can only make observations because I cannot get behind the minds of people at SBA. There was very little question

in mine or others' minds when we had a sit-down with SBA, actually, on March 1, 2010, that there was a conscientious effort to at least establish IDAP, and that the others would probably follow shortly after that. And there seemed to be a concerted effort that was working across office lines at SBA involving the Office of Disaster Assistance, the Office of Capital Access, and the Office of Disaster Planning, which had been created by the 2008 Act. When we came in this time, there just seemed to be a complete lack of focus on IDAP or any of these programs.

And in terms of observations, it just seems from our standpoint there was less coordinated effort among these three offices to try to push forward on IDAP or any of these. So these are observations I can make but I do not really have a good explanation for why, in a sense, the ball was dropped in developing these programs and in developing IDAP as the first program.

Ms. VELÁZQUEZ. Mr. Rivera, the GAO report on Sandy's response said that SBA did not respond as anticipated because it was challenged by an unexpectedly high volume of loan applications that it received early in its response to the disaster and other technological challenges. How is it possible for the SBA to have this kind of managerial and structural mishaps in light of the lessons learned from Katrina?

Chairman CHABOT. Before the question is answered, just let me let you know what is going on. Mr. Hanna has yielded his five minutes.

Ms. VELÁZQUEZ. I thank the gentleman.

Chairman CHABOT. So she will proceed with that. There are four minutes of it left.

Mr. RIVERA. Okay. Thank you.

So Hurricane Sandy, we are transparent with GAO and with the Inspector General. We provided the information to them. What happened in Hurricane Sandy is we had developed the electronic loan application where people can apply on line.

There are two traditional bell curves. There is a paper bell curve or paper intake curve on how applications are received. That usually happens between week five and week eight, and then there is the new norm, which is the ELA curve, which happens between week one and week four. So what happened in Sandy is we did not anticipate getting 20,000 applications in that first four weeks through the electronic loan application queue. We have course corrected. We have done changes to our processes. Our preprocessing department now can handle that type of activity. Our current activity in the electronic loan application side is up over 80 percent. So we have adjusted.

Every disaster is different. Every disaster is unique. We have never had this type of engagement from an electronic loan application perspective, so that was the big lesson learned. I mean, we have been real transparent.

Ms. VELÁZQUEZ. Sir, did you run any simulations?

Mr. RIVERA. We have run simulations.

Ms. VELÁZQUEZ. Because that is part of the disaster preparedness.

Mr. RIVERA. Yes. So we have run simulations. We run simulations all the time. On an annual basis we have, like, last year we

did a mock earthquake in Oakland, California. What we have been able to do—staffing was not an issue. So if you go back to Katrina, we had three issues. We had space, staffing, and the computer system. Those three issues were not in place when Super Storm Sandy hit. What happened, we had sufficient staff. We just did not bring them on quick enough because we did not anticipate this new intake curve that the ELA has caused us by getting these additional 20,000 applications in week one to week three. Usually, that is when we are bringing staff onboard. We peaked at 2,500 staff. Our staffing strategy has core staff of 1,000. We have 2,000 reservists, so we had plenty of staff in reserve. Our mistake, in hindsight——

Ms. VELÁZQUEZ. Let me ask you, we are in the middle of the hurricane season; right?

Mr. RIVERA. Yes, ma'am.

Ms. VELÁZQUEZ. So God forbid something happens. Tell me what steps are you taking right now that will position you to respond efficiently and timely.

Mr. RIVERA. So that is what we have been doing the last couple of years. We have been very aggressive.

Ms. VELÁZQUEZ. That is what I heard right after Katrina and right after we provided all the tools that you needed. When we conducted hearing after hearing and we heard what problems you were facing that would not allow for the agency to respond adequately, we provided those tools, and today, it has not been implemented.

Mr. RIVERA. Different issues in Katrina versus Sandy. Like I said before, Katrina was about not having a reserve force. We have 2,000 reservists. We have a contract that will bring on additional FTEs if we need additional full-time equivalents. We did not have space. We had 366 spaces in the Office of Disaster Assistance prior to Katrina hitting. We now have 2,100 seats. We have 1,750 seats in our Fort Worth processing center. We have another 300 seats in Sacrament in a surge capacity. The third is we could not get enough people on the system at the time. When Katrina hit, our Disaster Credit Management System was a year in. Now that system is pretty mature. We are 10 years in. We could not get more than 800 concurrent users on the system. So think about this. You have 4,500 employees. We had to go to three shifts in order—in Katrina, in order to meet the capacity. Today, we can go to 10,000 concurrent users, and we test that every two years, and my annual report to Congress shows all the developments we have done from that perspective. Sandy was a completely different issue in that as the intake curve on the ELA side was much quicker. And we did not anticipate it. We acknowledge that. We provided that to GAO. We provided that to IGDAP.

Ms. VELÁZQUEZ. Do you know what the problem is? The problem is credibility. It is credibility.

Mr. RIVERA. You are absolutely right. We are only as good as our last disaster.

Ms. VELÁZQUEZ. And lack of trust from the American people.

Mr. RIVERA. Well, I do not know how you want——

Ms. VELÁZQUEZ. Right after we passed the legislation, you came back and told us that you were ready and all the systems were in place, when, in fact, they are not all in place but two. You

promised that the processing would take only 21 days. You know, people shut their doors forever. You know and I know that when disaster strikes and we do not provide the assistance they need in the first three, four weeks, they are going to shut their doors forever.

Mr. RIVERA. We understand everything you have just said, Congresswoman. I mean, we clearly take that to heart. We are working very hard and very diligently, and we appreciate all the input we have gotten from GAO and the Inspector General's office, and we have done a lot of process improvements internally.

Ms. VELÁZQUEZ. So this is my ask.

Mr. RIVERA. Okay.

Ms. VELÁZQUEZ. I want a letter from the administrator to this committee as to when these assistance programs, the Expedited Disaster System Program, the Private Disaster Loan Program, will be up and running. That is the law and that is the mandate.

Chairman CHABOT. And I would join the Ranking Member in that request/demand.

So, and the Ranking Member's time has expired. We thank her for her questions. Now I will turn to myself for five minutes.

Mr. Rivera, I assume that you are familiar with the National Response Framework, which superseded the National Response Plan in 2008.

I note that you are nodding in the affirmative.

Mr. RIVERA. Yes, sir, I am.

Chairman CHABOT. Okay. In 2012, when Hurricane Sandy struck, are you aware of how the National Response Framework defined a catastrophic incident?

Mr. RIVERA. We currently do not have a specific definition.

Chairman CHABOT. Well, then let me stop you there and refer to the definition as it is defined in the framework. It was defined as any natural or manmade incident, including terrorism that results in extraordinary levels of mass casualties, damage, or disruption, severely affecting the population, infrastructure, environment, economy, national morale, and/or government function.

Now, given that definition, understanding that the SBA did not label Hurricane Sandy—did not label Hurricane Sandy a catastrophic incident when it occurred under Section 12081 of the Small Business Disaster Response and Loan Improvement Act of 2008—given that definition of a catastrophic incident, it seems to me that Hurricane Sandy sure would have qualified. Do you agree or disagree?

Mr. RIVERA. Chairman, the way we define disasters is by major and minor. I mean, it was a presidential declaration, so we defined it as a major.

Chairman CHABOT. Well, I read the definition to you. You heard me read the definition; correct?

Mr. RIVERA. Yes, sir. I did.

Chairman CHABOT. Okay. Now, you apparently felt that it did not apply, and that was the framework. It was still in effect during this time. So does it not seem like a disaster of the magnitude of Hurricane Sandy, and the Ranking Member saw this stuff firsthand. I am all the way over in Cincinnati, so we did not see it like

she saw it. She saw it. Does it not seem like that level of disaster would fit within that definition?

Mr. RIVERA. So from my perspective——

Chairman CHABOT. That should be a yes or no answer. I mean, do you not agree?

Mr. RIVERA. So from my perspective, we treat every disaster survivor——

Chairman CHABOT. From your perspective, yes or no? It is a fairly simple question.

Mr. RIVERA. We do not have that specific definition within the SBA. I understand it is in the National Disaster Recovery Plan.

Chairman CHABOT. It is required under the law. I read the law to you. You nodded in the affirmative that the National Response Framework had superseded the National Response Plan of 2008, and you were aware of that. And I am not here to criticize you individually for this, but what we are trying to do is make sure the SBA is following the law in aiding American citizens who so desperately during one of these catastrophic events needs their assistance. And we are not trying to embarrass anybody; we are just trying to make sure that you cannot go back and undo or redo what you did not do or did do back then, but you sure as heck can follow in the future.

But just answer me, as one human being to another, does not that definition which I read to you, does that not sound like Hurricane Sandy?

Mr. RIVERA. That is the definition that is in the National Disaster Recovery Framework. Yes, sir.

Chairman CHABOT. Okay. And that sounds like what happened; right? I mean, as far as Sandy.

Mr. RIVERA. Yes, sir. It was a presidential declaration, and it was major.

Chairman CHABOT. All right. Thank you very much. I appreciate your response.

Mr. Shear, let me turn to you. Or did you want to say something about what I was just saying? You looked like you were kind of chomping at the bit.

Mr. SHEAR. No, go ahead. Please.

Chairman CHABOT. We are doing okay? All right, good. All right.

If the SBA could fix one thing before the next big disaster, what would GAO place at the top of the list? If you need two things, I am okay with that, too. But what is the most important thing that you think the SBA needs to fix to get ready for the next big one before it hits?

Mr. SHEAR. I am going to stick to our two recommendations here. It needs an approach that when there is a disaster of the magnitude of Sandy or worse, to be able to scale up. We have gotten some material from SBA that indicates they have updated their playbook. We are not quite sure yet, and I have talked to James about how we have to be convinced connecting the dots, that the changes made to the playbook and the disaster planning documents actually would lead to better preparedness. So I would say that is one area where we are not quite sure how much progress the Agen-

cy has made in preparing for the next disaster along this magnitude of Sandy or worse. So that is the first one.

In dealing with the whole issue of electronic applications, back in Katrina we recommended expanded availability of electronic applications for victims of disasters. So there are advantages to that, but the advantages can dissipate real quickly if SBA cannot scale up to really serve those victims.

The second part, and this is the part where I really have to be the most critical based on our evaluation here, I think SBA really, since 2010, when it looked like there was going to be movement—it might have been slow movement, but movement toward establishing IDAP and then the other two programs—is that it seems like the ball was completely dropped within the Agency; that there was not this concerted effort, and to the degree there was one at the time, it completely fell apart. And it is not just that these programs like IDAP could help serve victims. I hate to call a disaster an opportunity, but it is an opportunity and we supported starting with a pilot. It is an opportunity to see how well such a program or programs could work when the next major disaster or the next catastrophic disaster occurs. So those are really the two big things.

Chairman CHABOT. Thank you very much. My time has expired.

Ms. Hahn, the gentlelady from California, is recognized for five minutes.

Ms. HAHN. Thank you, Mr. Chairman, ranking member.

I am going to ask this question to Mr. Shear. So just listening to all of this, and being on the Small Business Committee and kind of understanding the core mission of SBA, it is really about small businesses, and since a long time ago SBA was involved in direct lending to businesses, so it sort of made sense that in the event of a disaster SBA would be doing these direct loans to families, homeowners, renters. But given the fact that SBA is not anymore involved in direct lending, and sort of listening to all this, do we think SBA is really the right agency in the aftermath of a disaster to be the agency that is handling these loan applications and these loans? Would FEMA be better equipped maybe to handle this kind of financial help to homeowners, renters, families after a disaster? I am just asking.

Mr. SHEAR. You are asking a really good question, and I wish I had a really good answer to give you. We have not evaluated that. I will just say generally that when SBA cannot do a better job with its whole portfolio, including the direct business loans, and when there is a call by Congress in response to what has happened to the victims of disasters—small businesses and others, the homeowners—to improve things, it puts the Congress in a very difficult position. FEMA many times, I do not direct FEMA work but our team's body of work shows that FEMA has certain challenges in terms of its responsiveness. But at the same token, SBA is putting you in a difficult situation, especially when it seems to have trouble standing up new programs, or at least trying to stand up new programs that Congress calls for. It just seems like SBA is especially challenged in this way.

Ms. HAHN. Right. I am new around here, but just listening to all this, it does not seem like that is the core mission of SBA, par-

ticularly since they, again, have not been involved in direct lending for decades now.

Mr. SHEAR. Let me just make reference—at the request of this Committee, we are doing a general management review at SBA, and we are trying to look at how can SBA be better at what it does across the board.

Ms. HAHN. Right.

Mr. SHEAR. And it is one that there are certain challenges that are created.

Ms. HAHN. Right. It just seems like it is only in the event of a disaster that we are asking SBA to begin processing applications for loans. Again, to folks that are not business, it is families, renters, homeowners. That is not what they do regularly, so I was just curious if this might be better served in another agency.

But Mr. Rivera, until that task is given to another agency, I am curious to know, particularly since I come from an earthquake region in California, and maybe you can explain to me, in the event of a hurricane or it seems like there's warning. It seems like we are following the weather and we sort of know when landfall is and what kind of category it is, I am assuming, but maybe you can tell me, is that when you begin hiring the reserves? And then how does that translate to we still have not figured out when earthquakes are coming. They happen very fast, and I am a little concerned that you only ran a model for Oakland, which is a very different city than, say, Los Angeles. And what is your scenario in terms of an earthquake, in terms of ramping up quickly staff processing applications for a major city like Los Angeles?

Mr. RIVERA. So we had the smaller earthquake back in—last year in Napa. That was a small disaster. Well, it is not small if it is your business or if it is your home, but we loaned $39 million. The Oakland exercise was just one of many exercises. We have exercised Seattle. We have exercised Los Angeles. In 1994, we provided $4 billion to disaster survivors in the Los Angeles community. But you are right. That is the intangible we have. Most disasters tend to be seasonal.

Ms. HAHN. And do you ramp up staff when there is a warning of a hurricane?

Mr. RIVERA. So what we do is we——

Chairman CHABOT. The gentleman's time is expired, but you can answer the question.

Mr. RIVERA. We have a staffing strategy. It is something we have developed in the last four or five years. Basically, we have a core staff of 1,000 employees that work year round, currently between 800 and 1,000. We have 2,000 reservists we call on a quarterly basis. We ask them if they are available, if they are not available. If they are not available, we call them and we ask them why they are not available. But we have this reserve force in place. We are continuing to train. We are continuing to keep everybody prepared from that perspective. We do not have funding to keep 5,000 people at one time on the rolls, but at the same time, this staffing strategy seems to be a pretty successful model from that perspective.

Chairman CHABOT. The gentlelady's time is expired.

The gentlelady from American Samoa, Ms. Radewagen, who is the Chairman of the Subcommittee on Health and Technology is recognized for five minutes.

Ms. RADEWAGEN. Thank you, Mr. Chairman. I want to thank both you and Ranking Member Velázquez for holding this important hearing today to discuss SBA's Disaster Loan Program.

My questions are for Mr. Rivera.

Following the killer tsunami of 2009 in American Samoa that took over 200 lives, and other natural disasters in the U.S. territories, what were your biggest takeaways regarding how the SBA can improve the disaster loan program concerning the U.S. insular areas?

Mr. RIVERA. So as you mentioned, we do provide disaster loan assistance in the South Pacific, particularly in Guam and American Samoa and Palau and some of the islands in that area. So the biggest challenge we have when we are dealing in the South Pacific used to be the communication between having an operation in Texas which processes and disburses all of our loans in the Fort Worth, Texas office, in relation to the time zone difference that we have between the South Pacific, which is a day ahead, compared to the Texas operation. But it seems, we had a small disaster earlier this year in Palau that seemed to have worked pretty effectively where we were able to match the time zone differences and we shifted our staff to be able to cover the normal day that exists out in the South Pacific in relation to our process and disbursement centers in Fort Worth, Texas.

Ms. RADEWAGEN. What is the average rate of approved versus submitted loans from all past disasters?

Mr. RIVERA. So generally, we run about 50 percent. From our perspective, we try to make every loan possible. We are much more aggressive. Our disaster credit box is much more aggressive than a private sector bank, but we do not want to provide a loan to somebody that does not have the ability to repay or has adverse credit. In presidential declarations, we do have the opportunity to refer these individuals back to the Federal Emergency Management Agency, and they are generally able to get a grant of up to $30,000 for unmet needs, and that is a better fit if they are able to get a grant versus having to have to repay a loan. But to answer your question, we run about 50 percent on average.

Ms. RADEWAGEN. What are some of the reasons applications are not approved and processed?

Mr. RIVERA. Primary reasons are two. One is lack of repayment ability, and the second one is adverse credit. Even though we tend to be very aggressive—for example, we score the entire portfolio when it comes in. Eighty percent of our loans are to homeowners and 20 percent are to businesses. But if you have a really low FICO score—back in Katrina, we took 400,000 individuals through the entire process. Since then, we bifurcate the process where we have the lower credit scores that are not going to have repayment ability under our traditional cash flow analysis. We go ahead and decline them and refer them back to the grant program.

Ms. RADEWAGEN. I see.

Do you find that any of those reasons are specific to American Samoa or other United States territories?

Mr. RIVERA. So the quality of credit, obviously, there is a little bit of regionality, but generally speaking, we have—the statistics are very similar across the country in relation to American Samoa.

Ms. RADEWAGEN. Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

The gentlelady from New York, Ms. Clarke, is recognized for five minutes.

Ms. CLARKE. I thank you, Mr. Chairman. And I thank Ranking Member Velázquez. And I would like to thank our witnesses for their testimonies today.

One of the most damaging consequences of climate change is the increased frequency and veracity of natural disasters. Super Storm Sandy was a brutal reminder of this fact. Losses due to Super Storm Sandy topped $75 billion in damages to infrastructure, homes, businesses, and communities across the eastern seaboard, not including the unfathomable loss of life incurred by the storm.

We do not know where or when the next super storm will occur; only that a storm of that magnitude will inevitably hit the United States again. Therefore, it is critical that the disaster response and assistance programs are some of the most important and significant programs that we can focus on and vulnerable and distressed Americans require that we get this right. We must ensure that these programs run efficiently and effectively and not compound their hardships.

So I want to circle back to some of the questions raised—well, the main question raised by Congressman Smith, which is a matter of financial transparency. And part of the challenge during a crisis like this is that when people are distressed, they are looking for any help that they can receive. Is there somewhere within the application process that borrowers are informed of restrictions or prohibitions on the use of these funds, and that accepting these funds would trigger a prohibition on victims receiving federal grant funding? Because I get the impression, particularly when people are under stress, that if one vehicle is moving faster than say another, they are just going to go with that vehicle in order to survive, in order to recover. If, however, they do not realize that at some point in time they are not going to be able to apply to another agency or another entity for support, that may govern their behavior. Is there something that specifically within the process, in bold letters, in red ink, indicates to individuals that if you do this, you will forfeit future opportunities to make you whole?

I am sorry, that is to Mr. Rivera.

Mr. RIVERA. Okay, thank you.

So we follow the Stafford Act sequence of delivery, which is a FEMA grant, SBA loans, and any supplemental assistance behind it. To answer your question, 90 percent of the applications were processed when the HUD supplemental came through, so we were 90 percent into Super Storm Sandy when the HUD funds started becoming available. Since Katrina, the ranking member mentioned we have a memorandum of understanding between us and HUD similar to the way we have a memorandum of understanding between SBA and FEMA. So there is a lot of transparency between the federal agencies from that perspective.

Ms. CLARKE. I am talking about the individuals, the borrowers.

Mr. RIVERA. So the individuals. So what we have done since Super Storm Sandy, we heard a lot of individuals that did not want a loan; they wanted a grant. But we what we have done is we have gone in and we have highlighted and bolded, as you suggested——

Ms. CLARKE. You are saying since the storm.

Mr. RIVERA. Since then.

Ms. CLARKE. So there are a whole bunch of folks out there, and I have a constituency that was badly hit. And what I am trying to say to you is that it is only human when you have mold growing in your home, you are being told that you are going to have to elevate your home, that the first vehicle that offers you some relief, that you are going to take it. But if within your documentation you indicate to individuals doing this will, in other words, make you ineligible for other opportunities, and people know that upfront, then people can make informed choices.

Mr. RIVERA. Yes, ma'am. We understand. And what we have done is we do have that information prior to Super Storm Sandy.

Ms. CLARKE. Post?

Mr. RIVERA. Post, we did have that information, but apparently it was not as clear enough as we could have made it, so we have made it even clearer from a duplication of benefits perspective. If you have an SBA loan, that is a sequence of delivery. That is the option you have to take the loan versus if there is a grant opportunity behind it.

Ms. CLARKE. I think that we really need to sort that out, sir.

Mr. RIVERA. Okay.

Ms. CLARKE. I mean, the average American in a crisis situation is not thinking Stafford Act. They are just not. And I think that is a bit much to ask that they do. They are thinking how do I keep my elderly well, how do I keep my children secure, how do I get my life back together? And oftentimes, the SBA is the most visible entity on the ground. You have got a lot of folks out there with jackets on saying, "We can help you." But they do not follow up with, "But if you take our help, here are what some of the implications can be for you." And I think that is critical, that level of transparency.

Chairman CHABOT. The gentlelady's time is expired.

Ms. CLARKE. Thank you, Mr. Chairman.

Chairman CHABOT. You are welcome.

And if you want to make a response?

Mr. RIVERA. Yes, ma'am. We understand. And as I have mentioned, we will—and we can work with your office, too, if you want to see what we have done to show the transparency and how if we provide you a loan, you know, the statute basically says we have to provide the assistance from that perspective.

Chairman CHABOT. Mr. Shear, did you have something to say there?

Mr. SHEAR. No.

Chairman CHABOT. Okay, thank you very much.

Okay. The gentlelady's time has expired.

The gentleman from Nevada, Mr. Hardy, who is the Chairman of the Subcommittee on Investigations, Oversight, and Regulations is recognized for five minutes.

Mr. HARDY. Thank you, Mr. Chairman, Ms. Velázquez, I appreciate the opportunity to discuss this today.

Mr. Rivera, it was mentioned in Mr. Shear's testimony that the initial backlog of loan applications was due to the SBA not anticipating the loans were to come in such a rapid response. Did we not take into account that there are 83 percent of all American adults utilize the Internet?

Mr. RIVERA. Yes, sir, we did. And if I can explain. Eighty percent of our loans were to homeowners. We have this generic goal, self-imposed goal of 21 days. We processed those in 24 days, so we had 85,000 applications, 80 percent of them were homeowners. We did that in 24 days.

What happened is that generally the home track comes in first and then the businesses apply subsequent to the homeowners coming in. So we have bifurcated our process now where we have a separate home track from front to end and a separate business track from front to end. And I strongly believe that is going to alleviate any sort of pressure points when we have businesses—because we are the Small Business Administration, we need to be sure that we service those businesses. They will be serviced first in, first out on the business track, at the same time we are addressing the home track with the home loan officers, with the home inspectors, with the business inspectors, with the business. So by bifurcating that process, we believe that that is going to be—that will relieve that 40 day clock down and we will be able to really manage it within the 21 days.

Mr. HARDY. Mr. Rivera, Congress passed the Small Business Disaster Response Loan Improvement Act in 2008. The SBA was expected to implement all the provisions required in a timely manner. Can you explain why the three provisions have not been fully implemented over seven years later? In my opinion, that is far too long to take to implement those.

Mr. RIVERA. So the Disaster Guarantee Loan Programs, as I mentioned previously, we have—and we thank Bill Shear and GAO for providing us with one of the recommendations, which is something that we thought—which we responded to but we will continue to work with GAO to get the responses clear—the process, the methodology was to first look at IDAP and see how IDAP works.

So recently, we met back in October 2014. There is a trade association called the National Association of Government Guaranteed Lenders (NAGGL). They are basically the 7(a) lenders. We met with 27 banks, three CDCs, and three lender-service providers, and we asked what else do we need to do in order for you guys to play in the disaster scenario? Because we have done everything from an SBA perspective. Our systems, between our disaster system and the eTrans system where we fund our loans on the Cap Access side, that has been put. We promulgated regs back in 2010 as Mr. Shear mentioned earlier. We just cannot get the lenders to take the level of risk to provide this IDAP type of mechanism. There are issues regarding, you know, from the lender's perspective. And we can provide you with what the NAGGL response was on the board from that perspective.

Ms. VELÁZQUEZ. Would the gentleman yield just for a second?

So you met with 7(a) lenders and all kinds of lenders. And when did you learn that they were not receptive?

Mr. RIVERA. So this has been an ongoing conversation we have had with the lenders since the statute was passed. As a result of the GAO report——

Ms. VELÁZQUEZ. And so what did you do with that information? Did you send a letter to us to let us know that you were confronting those——

Mr. RIVERA. Yes. My understanding is we provided a letter to GAO as part of our response.

Ms. VELÁZQUEZ. No, no, no. We passed legislation here. We wrote the law. So if there are—if we need to make some adjustment or some fixes or change regulation, we do it here. But if you do not share that type of information with us, how do you expect Congress to act?

Mr. RIVERA. Okay. We can——

Ms. VELÁZQUEZ. Thank you. And I yield back.

Mr. HARDY. Thank you.

Mr. Shear, in your opinion, if those three other implementations you had recommended had been in place prior to Sandy, do you think it would have made a lot of difference?

Mr. SHEAR. I will answer it in two ways.

Mr. HARDY. Okay.

Mr. SHEAR. The first part, and we focused on IDAP just because the agency came forward with us first in basically 2010 and said they were going to develop a pilot on IDAP. It is the easiest one to implement. We can do it quickly was the argument. The idea of a pilot, we always supported it, and a thoughtful pilot, it could serve victims of really major, catastrophic disasters. And so it could provide those benefits. But even a relatively small pilot program would help inform how programs of this nature can be useful and what types of adjustments might be necessary to make those programs useful on a more permanent basis. So that was the major opportunity that was given up.

Part of the reason to have a pilot is to see how well something works, and no pilot of any one of these three programs has occurred. So the answer is it could have been very helpful, but the opportunity lost was there was nothing in place to see how helpful it could have been.

Chairman CHABOT. The gentleman's time is expired.

The gentlelady from North Carolina, Ms. Adams, is recognized for five minutes, and she is the Ranking Member of the Investigations, Oversight, and Regulations Subcommittee.

Ms. ADAMS. Thank you, Mr. Chairman, and thank you Ranking Member Velázquez for holding this important hearing. And gentlemen, thank you for your testimony.

Disaster relief is critically important, as we have heard, to residents who lose literally everything as a result of a natural disaster. In my home state of North Carolina, many residents living on the Outer Banks were faced with limited routes on and off some of our most popular islands as a result of the impact of Hurricane Sandy. But in addition to homeowners who were impacted, there are many individuals who are business owners who are impacted as well and

who worked hard to start their businesses and to expand them, only to have to rebuild them after the storm.

Mr. Rivera, my question to you is, according to the bipartisan task force for Hurricane Sandy, many applications for SBA Disaster Loan Programs were required to use their residence as collateral. What percentage of business owners used their personal residences as collateral to obtain the SBA Disaster Loan in response to Hurricane Sandy? And how does that percentage compare to other disasters?

Mr. RIVERA. I do not know the statistics for North Carolina in relation to how many residences we take as collateral when we have a business loan, but our policy is when we have a business loan, we take best available collateral, and if you are one-to-one, we do not pursue the residence as collateral from that perspective. We have changed our SOP where we have loosened up our guidelines where we are just not making the residence as collateral as the primary source of collateral. If there is sufficient business assets to get you to a reasonable place where we are collateralized, we will use the business assets and bypass the residence.

Ms. ADAMS. So in the event that a business owner uses their personal residence as collateral and they defaulted, what options are provided for those persons?

Mr. RIVERA. So looking back, it is a little bit harder for us to forgive any collateral that we have in place, but I mean, we can obviously have that discussion on a case-by-case basis and see what the situation is with each individual disaster survivor.

Ms. ADAMS. Okay. Mr. Rivera, would you describe the general process by which a business owner must apply for an SBA disaster loan, how that compares to the process business owners had to take for Hurricane Sandy?

Mr. RIVERA. So our current process, it is the same across the board. What we do is we provide the electronic loan application. It is a two-page application, front and back. It is very similar to a credit card application. It is SBA Form 5. We ask that you fill it out. We ask that you complete the IRS release form. We do not ask for copies of tax returns. We ask for a copy of a tax transcript that enables us to get copies of the tax transcripts from the IRS directly. And then we also ask that they provide us with any sort of personal information that they have, like a personal financial statement, so forth and so on. But we do provide * we have a call center that is open up in Buffalo, New York. For example, this year, we have taken about 125,000 phone calls and this has been a low year from a disaster perspective. And we provide on-the-ground support when there is a disaster recovery center to meet face-to-face. We also use our resource partners, our SBDCs, our WBCs, and our SCORE partners that help us on the ground that can help with any additional requests we have as far as any additional documentation that we need.

Ms. ADAMS. So the earlier question that I asked regarding the numbers in North Carolina, if you could provide those for me I would appreciate it.

Mr. RIVERA. Yes, ma'am. I will.

Ms. ADAMS. Thank you.

Mr. Chairman, I yield back.

Mr. Chairman, I yield back.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

The gentleman from New Jersey, Mr. Payne, is recognized for five minutes.

Mr. PAYNE. Thank you, Mr. Chairman. And to our ranking member, I appreciate all her hard work over the years on this Committee.

Mr. Rivera, just to follow up on something my colleague, the gentlelady from New York, Ms. Clarke, brought up. In my information in preparing for this Committee hearing, there was an Associated Press article from December 14, 2014, called "Buyer's remorse: Loans impacting grant money for Sandy victims." And it talks about a homeowner that applied for your loan and got the loan, and subsequently, the loan repayment cost was a bit much for her and she was looking to possibly apply for some grants from some other area of FEMA, what have you, and was then told that, well, since you took that loan, you are ineligible. And I think that is the point that the gentlelady from New York was making, is that, you know, until it came down to it and she looked for other avenues, she did not realize that that disqualified her for any other type of help. So I think what we are asking is you need to make that clear to these loan applicants up front that this potentially disqualifies you from any other grants that you could possibly receive. I think that is the clearest way to make it—people do not understand that when they take this loan, it disqualifies them or they are not capable of accessing other governmental programs. Okay?

Mr. RIVERA. Yes, sir. Understood.

Mr. PAYNE. All right.

You know, Mr. Shear, in your testimony, you noted that Super Storm Sandy, the approval rate for business loans was higher than for Hurricane Ike and comparable to Irene. However, the approval rate was lower than for Katrina, Rita, and Wilma. Just in New Jersey, we almost lost approximately 200,000 businesses. Can you shed some light on why the approval rating varied so much?

Mr. SHEAR. I cannot address your specific question because it was not like we analyzed basically individual loan applications, the credit histories of the borrowers, or what information was submitted from the standpoint of ability to repay. So we noticed a similar pattern, but I cannot explain why in this disaster the approval rate was 42 percent rather than something either higher or lower.

Mr. PAYNE. Okay. All right. Thank you, sir.

Let us see. Mr. Rivera, it looks like of the 14,558 original business loan applications that were submitted, 4,715 were withdrawn. Of that figure, the SBA was actually responsible for withdrawing almost 3,000. In New Jersey, it is estimated that small businesses incurred approximately $3.5 billion in damages and the SBA issued $819 million, roughly 25 percent of the need. Can you elaborate on why the SBA would withdraw an application, and what alternative services were offered to the small business owners in need of disaster relief?

Mr. RIVERA. Yes, sir.

In situations where we offer—we will make a loan commitment to a business, so we give them up to 60 days if they want to accept the loan commitment. And often, they do not like the terms of the conditions, and we will go back and we will try to rework the debt with them to see if we can make the payment more affordable. Or they will collect insurance and they will not want to secure their business assets because they do not want to have an SBA loan, because our debt is debt on top of debt. It is not to improve working capital. It is not for new facilities to expand to increase their working capital. Our debt is basically to take them back to where it was pre-disaster, or as close to it as we can pre-disaster. So we often run across situations where somebody will have some insurance and they will decide based on their insurance recovery that they do not want to take any additional debt so they will go ahead and withdraw their application or cancel their application and they will say they will just go ahead and work from a smaller insurance recovery than they will with the SBA loan.

Chairman CHABOT. The gentleman's time is expired. The gentlelady from New York, Ms. Meng, who is the Ranking Member of the Agriculture, Energy, and Trade Subcommittee, is recognized for five minutes.

Ms. MENG. Thank you, Mr. Chairman. Thank you to our ranking member for your hearing on this issue.

Obviously, this is something that has affected people from all across the country, but specifically, many of our constituents in New York. I wanted to get a better understanding of how the interest rates for disaster loans compare to other similar SBA small business loans. How are the interest loans determined and if there is any uniformity of that process from disaster to disaster?

Mr. RIVERA. So we determine our interest rates on a quarterly basis. It is a statutory formula. It is based on treasuries compared to, for example, the 7(a) program where it is prime plus whatever. We are capped statutorily at 4 percent and 8 percent. Our current home rate is running around 2 percent—2 percent for no credit elsewhere, 4 percent for credit elsewhere. And 90 percent of our loans are no credit elsewhere, so it is the lower rate. On the business side, we run the two rates of 4 percent and 6 percent, which prime is at, what, 2-3/4, so it is a point and a quarter over prime from that perspective. It is a fixed loan, fixed interest rate, and it is a fixed term also, so we can expand terms up to 30 years on a no-credit-elsewhere loan.

Ms. MENG. So it is different for homeowners and for small businesses?

Mr. RIVERA. Yes, ma'am. It is two different calculations based on the statutory definitions we have.

Ms. MENG. And traditionally, it is lower for homeowners?

Mr. RIVERA. Yes, ma'am. It is generally lower.

Ms. MENG. Compared to small businesses?

Mr. RIVERA. Mm-hmm.

Ms. MENG. Regardless of the earnings of the small business?

Mr. RIVERA. Yes, ma'am.

So we can make loans to businesses of any size, and often, if it is a large business, they will have a credit-elsewhere loan, so it will be a 6 percent loan, and it terms out at seven years, where often

they can borrow cheaper with commercial paper or with their lender themselves. They may be a prime borrower, and if prime is at 2-3/4 and they are getting a 6 percent rate, they will not want our terms and conditions.

Ms. MENG. Okay. Thank you.

I yield back.

Chairman CHABOT. The gentlelady yields back. And I now yield to the Ranking Member to make a statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

I would just like to ask Mr. Rivera that you submit for the record a Sandy era loan application that was filled out by an applicant during Sandy. Not the actual one that you have.

Mr. RIVERA. Yes, ma'am. We can do that.

Ms. VELÁZQUEZ. Thank you.

Chairman CHABOT. Thank you very much.

And I want to thank you both for participating this afternoon. And as we have heard, the SBA serves a vital role in helping communities rebuild following a disaster. The Committee understands that is no easy task, but it is of utmost importance. It is imperative that the SBA continue to improve its process to ensure that future disaster victims are able to secure the necessary loans that they need, and the Committee will continue to monitor the SBA's progress.

And I would ask unanimous consent that Members have five legislative days to submit statements and supporting materials for the record. And if there is no further business to come before the Committee, we are adjourned.

Thank you very much.

[Whereupon, at 12:24 p.m., the Committee was adjourned.]

APPENDIX

CHRISTOPHER H. SMITH
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CONSTITUENT SERVICE CENTERS:

MONMOUTH
112 Village Center Drive
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OCEAN
405 Route 539
Plumsted, NJ 08514–2303
(732) 350–2300; (609) 286–2571

MERCER
4573 South Broad Street
Hamilton, NJ 08620–2215
(609) 585–7878

Congress of the United States
House of Representatives

SENIOR MEMBER, FOREIGN AFFAIRS COMMITTEE

CHAIRMAN, AFRICA, GLOBAL HEALTH, GLOBAL HUMAN RIGHTS, AND INTERNATIONAL ORGANIZATIONS SUBCOMMITTEE

WESTERN HEMISPHERE SUBCOMMITTEE

CHAIRMAN, COMMISSION ON SECURITY AND COOPERATION IN EUROPE

CHAIRMAN, CONGRESSIONAL-EXECUTIVE COMMISSION ON CHINA

DEAN, NEW JERSEY DELEGATION

Transparency and Full Relief Needed for Sandy Victims

Rep. Chris Smith
Excerpts of Testimony
House Committee on Small Business
July 8, 2015

I would like to thank my good friend and colleague Chairman Chabot for convening this hearing today. It has been more than two and a half years since Superstorm Sandy devastated New Jersey, and so many of my constituents—especially those in hard-hit Monmouth and Ocean Counties—are still recovering today.

As many are well aware, the federal response was far from perfect. The Federal Emergency Management Agency (FEMA) recently reopened all Sandy-related flood claims due to widespread fraud and a complete lack of oversight over the National Flood Insurance Program (NFIP). The New Jersey and New York delegations fought hard to secure critical funding from the U.S. Department of Housing and Urban Development (HUD). Despite huge remaining unmet needs, HUD chose to make nearly $1 billion in Sandy supplemental funding through the Community Development Block Grant Disaster Relief Program (CDBG-DR) available to applicants unaffected by Sandy.

With that in mind, I am here today to shed light on a hardship now faced by homeowners who were encouraged—and in many cases pressured—to apply for Small Business Administration (SBA) disaster assistance. They did so not only to determine their eligibility for home disaster loans but also to qualify for additional future relief. Due to a complete lack of information and disclosure in the loan process, many Sandy victims now find themselves ineligible for further relief through various grant programs.

To illustrate, consider a family from Manasquan, New Jersey whose home was destroyed. They liquidated their retirement savings to pay down debts taken to finance their children's college education just to qualify for a home disaster loan. This not only decimated their savings, but also resulted in a substantial tax penalty—$52,000—for the early retirement withdrawal. They subsequently applied for relief through New Jersey's Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) Program, only to learn of their ineligibility for a grant award solely because they had qualified for and accepted the SBA loan—a circumstance that they were never informed of during the loan process.

As they emphasized in their letter to me, this begs the question—if they had been fully informed of the potential consequences, would they have taken the SBA loan? Of course not. With more than 32,000 SBA disaster home loans approved following Sandy, there is no telling how many homeowners have found themselves in a similar situation. I am sure that today's witnesses can speak to the pile of papers presented to the homeowner during the loan closing, and it would be helpful to hear whether SBA has had any discussions with HUD and their state grantees on this issue.

While HUD provided guidance in July 2013 allowing grantees to provide assistance to Sandy victims who had qualified for but declined an SBA loan, they have done nothing to assist the families who acted in good faith to immediately begin the rebuilding process. Last month I sent a letter to both SBA and HUD requesting further guidance specifically permitting CDBG-DR grantees to provide grant awards to Sandy victims who previously accepted an SBA loan, at least for the purposes of paying down the loan. I also asked that this matter be referred to SBA's Office of Inspector General (OIG) to determine what action or inaction led to so many Sandy victims being left in the dark regarding this critical information.

This very issue should not have been overlooked by SBA, nor should it have come as a surprise. Following the Gulf Hurricanes of 2005 and Midwest flooding in 2008, SBA's OIG released a report entitled "*SBA's Role in Addressing Duplication of Benefits between SBA Disaster Loans and Community Development Block Grants*," detailing a serious lack of communication and agreement between federal agencies regarding the Stafford Act's duplication of benefits requirements. If the federal government itself failed to understand the implications of these requirements, how can they be counted on to explain it to disaster survivors?

While SBA has taken steps to improve its coordination with FEMA and HUD, it has failed to communicate with the survivors it is tasked to assist. Homeowners considering home disaster loans must be made fully aware of their potential preclusion from further assistance. In the post-Storm chaos, these loans were the primary option for homeowners needing to rebuild. Those who accept home disaster loans should not be precluded from future HUD assistance—subject to the grantee's policies and procedures—merely because such assistance is not yet available.

Sandy victims made great sacrifices to rebuild and recover—and unfortunately did so with incomplete or misinformation, through no fault of their own. No two disasters are the same and the recovery process will vary based on the level of federal support provided, but we must not continue to ignore the lessons learned from prior experiences. It is egregious what these Sandy victims have been put through, and they must be provided an equitable solution.

I look forward to the testimony from our witnesses today and to working with my colleagues in continuing to assist the victims of Superstorm Sandy and other disasters.

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CHAIRMAN, CONGRESSIONAL-EXECUTIVE COMMISSION ON CHINA
DEAN, NEW JERSEY DELEGATION

June 11, 2015

The Honorable Julián Castro
Secretary
U.S. Department of Housing & Urban Development
451 7th Street S.W.
Washington, D.C. 20410

The Honorable Maria Contreras-Sweet
Administrator
U.S. Small Business Administration
409 3rd St, S.W.
Washington, D.C. 20416

Dear Secretary Castro and Administrator Contreras-Sweet:

I am writing to express my deep concern over policies that have blindsided victims of Superstorm Sandy—depriving them of the relief they deserve—and to request your immediate assistance in providing an effective remedy.

In the wake of Sandy, tens of thousands of homeowners were pressured to apply for Small Business Administration (SBA) disaster assistance, not only to determine their eligibility for home disaster loans but also to qualify for additional future relief. I have since heard from several constituents who accepted home disaster loans but were never informed that such assistance could preclude them from the additional future relief, such as grants through the U.S. Department of Housing & Urban Development's (HUD) Community Development Block Grant Disaster Relief (CDBG-DR) program.

It is clear that this problem is widespread. The enclosed *Associated Press* (AP) report details the complete lack of information and disclosure many Sandy victims faced as they applied for federal assistance. After surviving a 100-year storm, people made great sacrifices to try to salvage and rebuild—but they did so with incomplete or misinformation.

Take for instance a family from Manasquan, New Jersey who liquidated their retirement savings to pay down debts taken to finance their children's college education—just to qualify for a home disaster loan. This not only decimated their savings, but also resulted in a substantial tax penalty for the early retirement withdrawal. It was not until the final stages of the application process for New Jersey's Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) Program that they learned of their ineligibility for a grant award (to pay down the SBA loan) solely because they had qualified for and accepted the SBA loan.

HUD rightfully provided guidance in July 2013 allowing CDBG-DR grantees to provide assistance to Sandy victims who had previously declined SBA loan assistance. Unfortunately this guidance did nothing for families who acted to good faith to immediately begin the rebuilding process. Had they been fully informed of the potential adverse consequences of taking out an SBA

loan, these homeowners would have opted to secure a CDBG-DR grant award, leaving them in a much more secure financial situation.

Considering the pressure placed upon Sandy victims to apply for SBA loans—without adequate warning of potential preclusion from other disaster assistance—I respectfully request that HUD issue guidance permitting CDBG-DR grantees to provide grant awards to Sandy victims who previously accepted an SBA loan, at least for the purposes of paying down the loan. I also request that HUD and SBA establish a streamlined process for the paying down of loans. Doing so would provide much-needed equitable relief to homeowners now facing heavy financial burdens they could have never foreseen. I also request that this matter be referred to SBA's Office of Inspector General (OIG) to determine what action or inaction led to so many Sandy victims being left in the dark in regards to critical information.

I look forward to working with HUD and SBA to resolve this issue. Thank you for your time and consideration.

Sincerely,

Chris Smith

CHRISTOPHER H. SMITH
Member of Congress

United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business,
House of Representatives

For Release on Delivery
11:00 A.M. ET
Wednesday, July 8, 2015

SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Help Ensure More Timely Disaster Assistance

Statement of William B. Shear,
Director, Financial Markets and
Community Investment

GAO-15-727T

GAO Highlights

Highlights of GAO-15-727T, a testimony before the Committee on Small Business, House of Representatives

Why GAO Did This Study

With an estimated $67 billion in damage, Hurricane Sandy (October 2012) was the costliest Atlantic storm since Katrina in 2005. SBA administers the Disaster Loan Program, which provides physical disaster loans (to rebuild or replace damaged property) and economic injury loans (for working capital until normal operations resume) to help businesses and homeowners recover from disasters.

This testimony discusses (1) the timeliness of SBA's disaster loans, (2) loan approval, withdrawal, and cancellation rates for selected previous disasters; and (3) the extent to which SBA implemented loan programs mandated by the Small Business Disaster Response and Loan Improvements Act of 2008. This testimony is based on GAO's September 2014 report (GAO-14-760) on SBA assistance to small businesses after Sandy. For that report, GAO analyzed SBA data on application processing, reviewed documentation related to SBA's planning, reviewed relevant legislation and regulations, and interviewed SBA officials. GAO provides updates on steps SBA has taken to implement GAO's recommendations.

What GAO Recommends

In September 2014, GAO recommended that SBA revise its disaster planning documents, conduct a formal documented evaluation of lenders' feedback on IDAP, and report to Congress on challenges to implementing the program. SBA has since taken steps to revise its planning documents and received and documented some lender feedback, but has not reported to Congress.

View GAO-15-727T. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

July 2015

SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Help Ensure More Timely Disaster Assistance

What GAO Found

Following Hurricane Sandy, the Small Business Administration (SBA) did not meet its timeliness goal (21 days) for processing business loan applications. From receipt to loan decision, SBA averaged 45 days to process physical disaster loans and 38 days for economic injury loans. SBA did not expect early receipt of a high volume of loan applications, and delayed increasing staffing—which in turn increased processing times. As of September 2014, SBA had not revised its disaster planning documents to reflect the effects that application volume and timing could have on staffing, resources, and forecasting models for future disasters. Federal internal control standards state that management should identify risks and take action to manage them. Without taking its post-Sandy experience with application submissions into account in its disaster planning documents and analyzing the potential risks posed for timely response, SBA might be unprepared for similar situations in future disasters, which could delay getting loan funds to disaster victims. In June 2015, SBA provided GAO with an updated version of one disaster planning document—the Disaster Playbook—which includes discussion of early application volume and references to updated staffing models. GAO's review of these changes is ongoing.

In comparison with the five disasters that generated the most SBA disaster loan applications since 2005, the loan approval rate after Sandy was not consistently higher or lower, but the application withdrawal and loan cancellation rates (32 percent and 38 percent, respectively) were consistently higher than other disasters. SBA approved 42 percent of business loan applications after Sandy, a rate lower than for Katrina, Rita, and Wilma, higher than for Ike, and comparable with that for Irene. For Hurricane Sandy and for previous disasters, SBA primarily declined business loan applications because of applicants' lack of repayment ability and credit history.

As of June 2015, SBA had not implemented the guaranteed disaster loan programs Congress mandated in 2008, including the Immediate Disaster Assistance Program (IDAP)—a bridge loan program in which private-sector lenders would provide disaster victims with up to $25,000 and an SBA decision within 36 hours of a lender's application on behalf of a borrower. In 2014, SBA officials told GAO they were trying to implement IDAP but had received some feedback from lenders that some program requirements—such as a statutory minimum 10-year loan term under certain circumstances—might discourage lender participation. SBA had not conducted a formal documented evaluation of lender feedback to establish what implementation challenges the agency might face and to determine what, if any, statutory changes Congress could consider. Without an appropriately documented evaluation of lender feedback, SBA might not have reliable information with which to inform its own actions and its reporting to Congress about challenges with implementing the programs. In June 2015, SBA provided GAO with documentation of additional outreach performed in October 2014, where lenders provided specific feedback regarding current statutory requirements and proposed program requirements. SBA has yet to adopt a plan for how and whether it will proceed with IDAP implementation or document the challenges it would face in implementing the program. Therefore, SBA has not reported to Congress on these issues.

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee:

I am pleased to be here today to discuss the Small Business Administration's (SBA) response to Hurricane Sandy, the costliest Atlantic storm since Hurricane Katrina in 2005. Sandy made landfall in the United States on the New Jersey shore on October 29, 2012, and estimated damage totaled approximately $67 billion. Although 24 states were affected, New Jersey and New York (particularly the New York City metropolitan area) were the most impacted states. While SBA is known primarily for its financial support of small businesses, the agency also plays a critical role in assisting victims of natural and other disasters through its Disaster Loan Program, which assists businesses of all sizes, homeowners, and renters affected by federally declared disasters.

Following Hurricane Sandy, SBA received disaster loan applications from nine states and Puerto Rico, with the majority of the business disaster loan applications generated by businesses in New Jersey and New York. Concerns were raised regarding the timeliness of the financial assistance business owners received. In particular, there were questions about the extent to which the program improved since Hurricane Katrina, and whether previously identified deficiencies, such as delays in processing loan applications, had been addressed.

My testimony today is based on information in our September 2014 report on SBA's response to Hurricane Sandy, and includes updates on steps SBA has taken to address two recommendations from that report. One recommendation related to better planning for high volumes of loan applications and another related to evaluating lender feedback to inform SBA and Congress about challenges to implementing a new loan program and determining if statutory changes might be necessary to aid implementation, and then reporting to Congress about any such challenges or changes.[1] Specifically, this testimony discusses (1) the timeliness of SBA's disaster assistance to small businesses and factors affecting timeliness, (2) comparative loan approval, withdrawal, and cancellation rates after selected disasters; and (3) the extent to which

[1]GAO, *Small Business Administration: Additional Steps Needed to Ensure More Timely Disaster Assistance*, GAO-14-760 (Washington D.C.: Sep. 29, 2014).

SBA implemented loan programs mandated by the Small Business Disaster Response and Loan Improvements Act of 2008.

For our September 2014 report, to evaluate the timeliness of SBA's disaster assistance to small businesses after Sandy, we obtained and analyzed data on application processing from SBA's Disaster Credit Management System (DCMS), reviewed documentation on SBA's loan processing procedures and its internal assessment of its response to Sandy, and interviewed knowledgeable SBA officials. We spoke with six Small Business Development Centers and eight local business organizations in New Jersey and New York to identify challenges businesses faced in receiving timely disaster assistance.[2] We obtained and analyzed DCMS data for the largest disasters from 2005 to 2012 as measured by loan application volume (Hurricanes Katrina, Rita, Wilma, Ike, Irene, and Sandy) to compare approval, withdrawal, and cancellation rates. We also performed comparisons on the DCMS data we received to ensure its accuracy and completeness and interviewed SBA officials responsible for maintaining the data. We concluded that SBA's data were sufficiently reliable for the purposes of our report.

To assess the extent to which SBA implemented programs mandated by the Small Business Disaster Response and Loan Improvements Act, we reviewed relevant legislation and regulations, and interviewed officials knowledgeable about these matters. The work on which this statement is based was conducted from August 2013 through September 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To update the status of our recommendations, in June 2015 we spoke with SBA officials about steps SBA had taken to address our recommendations, and reviewed updated documentation related to SBA's disaster planning and lender outreach.

[2]Small Business Development Centers are hosted by universities and state economic development agencies, and funded in part through a partnership with SBA. They provide aspiring and current small business owners with free or low-cost services such as business plan development, financial packaging and lending assistance, exporting and importing support, disaster recovery assistance, and procurement and contracting aid.

Background

Administered by SBA's Office of Disaster Assistance (ODA), the Disaster Loan Program is the primary federal program for funding long-range recovery for nonfarm businesses that are victims of disasters and is the only form of SBA assistance not limited to small businesses.

SBA can make available several types of disaster loans, including two types of direct loans: physical disaster loans and economic injury disaster loans.

- **Physical disaster loans** are for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. They are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. These loans are intended to repair or replace the disaster victims' damaged property to its predisaster condition up to a certain capped amount.
- **Economic injury disaster loans** provide small businesses that are not able to obtain credit elsewhere with necessary working capital until normal operations resume after a disaster declaration. The loans cover operating expenses the business could have paid had the disaster not occurred.

Not all businesses are eligible for both types of loans. Businesses of all sizes may apply for physical disaster loans, but only small businesses are eligible for economic injury loans.[3]

Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008 to expand steps taken by SBA after Hurricane Katrina and require new measures to help ensure that SBA would be prepared for future disasters. The act includes three provisions requiring SBA to issue regulations to establish new guaranteed disaster programs using private-sector lenders:[4]

[3]Businesses of all sizes are eligible for physical disaster loans, and SBA does not maintain data on business size for these types of loans. Therefore, information specifically on small businesses that received a physical disaster loan is unavailable. Data on physical disaster loan applications or total business disaster loan applications presented in this testimony include information about businesses of all sizes.

[4]Pub. L. No.110-246, §§ 12083 -12085.

- **Expedited Disaster Assistance Loan Program (EDALP)** would provide small businesses with expedited access to short-term guaranteed loans of up to $150,000.
- **Immediate Disaster Assistance Program (IDAP)** would provide small businesses with guaranteed bridge loans of up to $25,000 from private-sector lenders, with an SBA decision within 36 hours of a lender's application on behalf of a borrower.
- **Private Disaster Assistance Program (PDAP)** would make guaranteed loans available to homeowners and small businesses in an amount up to $2 million.

Timeliness of Disaster Assistance and Challenges to Address

The following section discusses the extent to which SBA met goals for timely processing of business loan applications and factors affecting timeliness; changes SBA made to address processing issues; and challenges that business organizations identified to timely receipt of assistance.

SBA Did Not Meet Its Timeliness Goal for Application Processing and Backlog Grew Rapidly

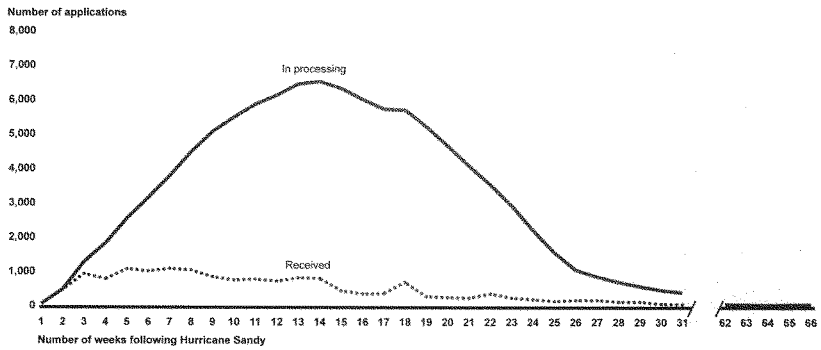
Following Hurricane Sandy, SBA did not meet its goal to process business loan applications within 21 days from receipt to loan decision. SBA took an average of 45 days for physical disaster loan applications and 38 days for economic injury applications.[5]

The average processing time for business loans peaked in March 2013 (5 months after the storm); business loans for which SBA reached a decision in March 2013 had spent nearly 60 days being processed, on average. One year after the storm, processing times for business loan applications still exceeded 21 days.

[5] In a June 2014 report, the SBA Office of Inspector General (OIG) found that the methodology that SBA used to calculate average loan processing times incorporated the times for automatically declined applications. The OIG also found that SBA's time goals for disaster loan processing—particularly those reported in the agency's Congressional Budget Justification—were established without considering potential increases in application volumes. The OIG's recommendations included that SBA establish processing time standards for different application volumes based on historical performance. SBA agreed to establish such standards and included the standards in the most recent updates to ODA's *Disaster Playbook* and the agency's Disaster Preparedness and Recovery Plan. See SBA, Office of Inspector General, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations*, No. 14-14 (Washington, D.C.: June 30, 2014).

A backlog of applications that were "in processing" (meaning SBA had not yet made a loan decision) grew rapidly over the course of SBA's response to the disaster (see fig. 1).

Figure 1: Number of Hurricane Sandy Business Disaster Loan Applications Received and in Processing, October 2012-January 2014



Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: Hurricane Sandy made landfall on October 29, 2012. The final week spans from January 27, 2014, to February 2, 2014. Business applications "received" represent the number of applications submitted to SBA during the week. Business applications "in processing" are the cumulative total of applications on which SBA had not yet made a decision (to approve or decline) and represent the backlog for business disaster loan applications.

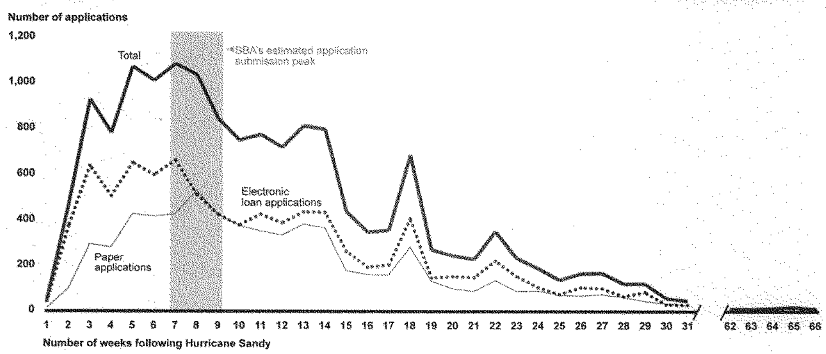
SBA Did Not Anticipate Early Timing and High Volume of Applications

SBA said that in the aftermath of Hurricane Sandy, it was challenged by a high volume of loan applications submitted at a faster rate than it had experienced in previous disasters. SBA's initial estimates of when it would receive applications differed from when it actually received them.

To prepare for a disaster, SBA uses assumptions about the volume and timing of the applications it expects to receive based on historical data—known as the "application intake curve." These assumptions serve as inputs to forecasting models that predict the staff levels necessary to meet processing needs.

According to the application intake curve for Hurricane Sandy, SBA estimated that application submission would peak about 7–9 weeks after Sandy. However, as shown in figure 2, SBA began receiving business applications earlier. According to SBA, the early spike in applications occurred because a majority of applications were submitted electronically rather than on paper, which resulted in a large volume of applications within a few days of the disaster. SBA stated that the earlier receipt of electronic submissions was caused by the convenience and speed of the Internet-based application as well as the elimination of postal handling time. While SBA created web-based loan applications to simplify and expedite the application process and encouraged electronic submissions, SBA noted that it did not anticipate receiving such a large volume of electronic loan applications early in its response to Hurricane Sandy.

Figure 2: Number of Hurricane Sandy Business Disaster Loan Applications SBA Received, October 2012-January 2014



Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: Hurricane Sandy made landfall on October 29, 2012. The final week spans from January 27, 2014, to February 2, 2014.

Based on its experience in fiscal year 2012, SBA initially estimated that it would receive between 11,000 and 21,600 business disaster loan applications after Sandy and 36 percent of all applications would be

submitted electronically. Following Sandy, SBA received 15,745 business disaster loan applications, and 55 percent of all applications were submitted electronically.[6]

At the time of our report, SBA had not updated its key disaster planning documents—the Disaster Preparedness and Recovery Plan and the Disaster Playbook—to adjust for the effects that a Sandy-like surge in early applications could have on staffing, resources, and forecasting models for future disasters.[7] Federal internal control standards state that management should identify risk (with methods that can include forecasting and strategic planning) and then analyze the risks for their possible effect.[8] According to SBA's Preparedness and Recovery Plan, the primary goals of forecasting and modeling are to predict as accurately as possible the application volume that will result from a disaster and the timing of application receipt. Without taking its experience with early application submissions after Hurricane Sandy into account, SBA risked being unprepared for such a situation in future disaster responses, potentially resulting in delays in disbursing loan funds to disaster victims. We therefore recommended that SBA revise its disaster planning documents to anticipate the potential impact of early application submissions on staffing and resources for future disasters, as well as the risk this impact might pose for timely disaster response.

In response to our recommendation, SBA has updated its Disaster Playbook. The changes SBA made include explicit recognition of the effects that high volumes of loan applications early in the response period could have on staffing and loan processing. Our review to determine if these changes addressed our recommendation remains ongoing.

[6]The total number of business disaster loan applications includes "reconsiderations"—applications declined upon first submission and resubmitted for a second review—and "appeals"—reconsidered applications that are declined and resubmitted for a third review.

[7]While the plan is an agency-wide document intended to ensure a broad scope of coordination, awareness, and support throughout the organization, the Disaster Playbook is an ODA document that describes steps that the office will take to respond to a declared disaster. It outlines the roles and responsibilities of ODA departments, resource partners, and other partners in the private sector at each major phase of the disaster recovery process.

[8]See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

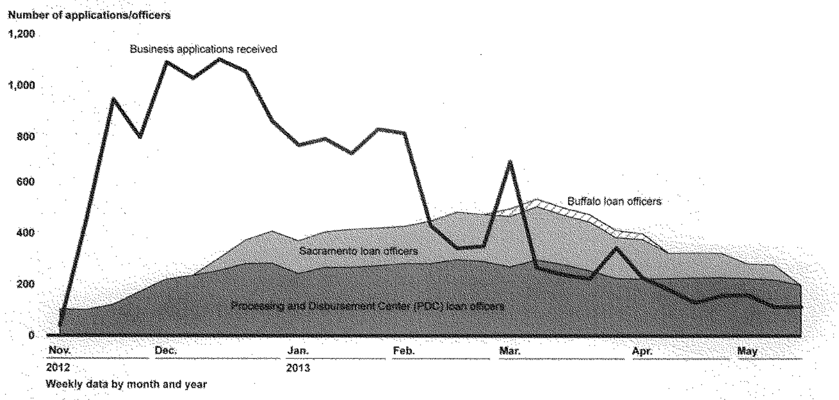
Inaccurate Processing Expectations Also Delayed Decision to Increase Staff

Another factor that affected the timeliness of disaster assistance was inaccurate expectations for application processing rates, which caused SBA to delay its decision to increase staff levels. ODA officials said the agency's processing and disbursement center communicated inaccurate production estimates to ODA headquarters, which led to delays in increasing staff levels to respond to the early influx of applications. ODA officials said that the center's management projected a loan officer could process an average of 3 home loan applications and 1.5 business loan applications per day, for a combined average of 2.25 disaster loan applications. However, this expectation was not met over the course of the response. Because the estimates were based on production benchmarks established after Hurricane Katrina, ODA officials noted that they relied on the estimates and delayed their decision to increase staff. ODA officials said they later recognized the past rate was not an appropriate indicator of production for Sandy due to factors including differences in the types of businesses affected and the larger number of approved applications.

As shown in figure 3, ODA ultimately added loan officers to two agency locations (Buffalo and Sacramento) after the peak months of receipts.[9]

[9]While the processing and disbursement center is dedicated to loan application processing, SBA maintains space for additional loan officers in its Sacramento office, known as the Disaster Assistance Field Operations Center—West. Following Hurricane Sandy, ODA also added loan officers in the Disaster Assistance Customer Service Center in Buffalo.

Figure 3: Number of Active Loan Officers and Hurricane Sandy Business Disaster Loan Applications Received by Week, October 2012–May 2013



Source: GAO analysis of Small Business Administration data. | GAO-15-727T

Note: The weekly data for loan officers and business applications received differ by 1 day. For example, the final week of data for loan officers ends on May 18, 2013, and the final week of data for business applications ends on May 19, 2013.

We reported in September 2014 that ODA told us it subsequently made several changes regarding communication with the processing and disbursement center and staffing increases. The center was required to produce a new series of daily reports for ODA headquarters to improve communication during future disasters. Specifically, these reports include more detailed information on production rates, number of applications submitted, and size of the application backlog. ODA also created a standard template for requesting and justifying additional staff that included information such as current and expected performance. At the time of our report, SBA also was determining whether it needed to add permanent loan processing staff to offices other than the processing and disbursement center to respond to disasters.

SBA Took Actions to Address Other Processing Challenges

To address challenges with providing timely assistance following Hurricane Sandy, SBA made various changes to its loan processing approach, DCMS, and loan officer training. However, as we stated in 2014, because SBA has not received a large volume of applications since Hurricane Sandy, it is too early to determine whether these changes will improve the timeliness of SBA's response for future disasters similar in magnitude to Sandy.

- **Loan processing approach:** SBA used to process loans in the order in which they were received, regardless of whether the applicant was a business or homeowner. After Sandy, SBA received more than four times as many home loan applications as business applications, and these home loan applications were received earlier. As a result, business owners faced delays due to the large number of home loan applications submitted ahead of them. In October 2013, SBA put in place two separate application tracks for home and business loans.[10]
- **DCMS challenges:** Over the course of its response, SBA encountered various challenges with DCMS, including server hardware crashes and periods of system latency (slowness and freezing), which added to some delays faced by business owners in receiving disaster assistance. In 2014, we reported that according to SBA, the agency was taking steps to improve DCMS for future disasters. For example, SBA planned to institute a process for updating system equipment (including conducting a baseline inventory and implementing a plan to replace outdated hardware). SBA officials said the inventory had been validated and the plan completed. In addition, SBA officials said the agency made improvements to its DCMS Help Desk, which responds to loan officers who experience system issues.
- **Loan officer training:** Most of the additional processing staff, particularly in Sacramento, were new hires, but SBA found that the new officers were not effectively trained to quickly respond to the

[10]SBA made the changes in response to a recommendation by the Hurricane Sandy Rebuilding Task Force. The Task Force was created in December 2012 by President Obama to ensure cabinet-level, government-wide coordination to help communities affected by Hurricane Sandy. The Task Force was chaired by the Department of Housing and Urban Development, and SBA participated as a member. In August 2013, the Task Force released the Hurricane Sandy Rebuilding Strategy report, which included 69 recommendations designed to eliminate barriers to recovery. See Hurricane Sandy Rebuilding Task Force, *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region* (Washington, D.C.: August 2013).

backlog of business applications. In 2014, we reported that SBA revised its loan officer training for future disasters. For instance, all loan officers had to complete a revised training course for processing business loans. SBA officials also noted that the agency reorganized loan officers into two groups that specialize in processing home and business loans based on the previously mentioned changes to the loan processing approach.

Organizations Identified Challenges Businesses Faced in Receiving Timely Assistance

Select Small Business Development Centers and local business organizations in New York and New Jersey with which we met in 2014 identified two main challenges (from the perspective of small businesses) that affected the timeliness of assistance: time-consuming loan documentation requirements and lack of SBA follow-up. We reported on steps SBA said it would take to address these two challenges.

Nearly all 14 development centers and local business organizations noted that meeting documentation requirements for applications was time-consuming and onerous to business owners. SBA officials said that the agency was taking several steps to streamline the documentation requirements for applicants. Specifically, SBA examined the entire loan application process to identify and eliminate documents that did not help loan officers make a decision on an application. According to SBA officials, the proposed changes to the required documentation were drafted and would be incorporated by the end of 2014 in the disaster loan program's standard operating procedures. Furthermore, SBA took steps to reduce documentation requirements for applicants with strong credit scores by amending regulations to allow the agency to rely on credit scoring rather than cash flow when determining an applicant's ability to repay.[11]

More than half of the entities with which we met said that business owners noted a lack of SBA contact after submitting their applications, and many owners were unaware of the status of their application

[11]Prior to its amendment, 13 C.F.R. § 123.6 required SBA to analyze every applicant's personal and business cash flow, a time-consuming process that included debt reconciliation and a repayment analysis to determine if funds were available for both loan payments and day-to-day living expenses. SBA amended 13 C.F.R. § 123.6 to allow the agency to base repayment ability determinations on either cash flow or credit, including credit score. The repayment analysis still includes verification of income/employment through federal income tax returns.

throughout the process, including whether or not it had been received at the processing center. Additionally, five entities noted a lack of continuity with loan officers or case managers over the course of the application process.[12] Two of these five entities said that some business owners had had up to eight different loan officers or case managers. In addition, these five entities reported that submitted documentation and information were lost when loan officers and case managers changed.

According to SBA officials, due to the physical damage caused by Hurricane Sandy, it was difficult for loan officers and case managers to contact applicants by telephone or e-mail despite their efforts. SBA officials told us that an applicant might have more than one loan officer or case manager for several reasons, such as when application numbers increased or if current loan officers or case managers had to supervise newer staff. SBA officials also told us that some documents could be misplaced due to the multiple ways applicants could submit information to the processing and disbursement center. In addition, some documents may not have been misplaced; rather, they may not yet have been entered into DCMS and thus were unavailable for loan officers to view.

According to SBA officials in 2014, efforts to process electronic application submissions more effectively would address these issues. The officials said SBA expected to create an electronic portal that would share information with applicants on the status of their applications and documents received, thus increasing transparency and communication during the loan application process.

Loan Approval, Withdrawal, and Cancellation Rates in Selected Disasters

As explained previously, for our 2014 report we compared SBA's approval, withdrawal, and cancellation rates for business loans after selected disasters. In comparison with the other disasters, the approval rate after Sandy was not consistently higher or lower, but withdrawal and cancellation rates were consistently higher.

Approval rates. The approval rate for business loan applications for Hurricane Sandy (42 percent) was lower than for Hurricanes Katrina, Rita, and Wilma, higher than for Hurricane Ike, and comparable to the rate for

[12]According to SBA, a loan officer is responsible for making loan application decisions and a case manager is responsible for closing and disbursing the loan.

Hurricane Irene. However, when taking home loan applications into account, Sandy resulted in the highest total approval rate (53 percent) in comparison to the five other disasters.[13]

The primary reasons for which SBA declined business loan applications after each of the disasters remained the same: lack of repayment ability and unsatisfactory credit history. Following Hurricane Sandy, SBA received 14,938 business loan applications and declined 5,663 as of January 31, 2014. Of the declined applications, SBA cited lack of repayment ability as at least one of the reasons on 2,644 applications (47 percent), and unsatisfactory credit history as at least one of the reasons on 2,317 applications (41 percent).[14]

Withdrawals. Application withdrawal rates were higher after Sandy than after the other disasters. Of the 14,558 original business loan applications that had reached a decision status by January 31, 2014, 4,715 (approximately 32 percent) had been withdrawn by SBA or the applicant.[15] The withdrawal rates for the previous disasters ranged from approximately 18 percent (Ike) to approximately 23 percent (Katrina and Wilma). For Hurricane Sandy, SBA withdrew approximately 60 percent of the 4,715 applications, while applicants requested withdrawal for the remaining 40 percent. The 60 percent figure for SBA-initiated withdrawals was higher than for two of the other disasters and lower for three. The leading reason for withdrawals after Sandy was the applicant's failure to provide SBA with all requested information (1,542 withdrawals or approximately 33 percent of all withdrawn applications).

[13]Approximately 83 percent of the original loan applications SBA received after Hurricane Sandy were for homes. The "original" category excludes resubmissions after reconsiderations or appeals. SBA received 85,456 original disaster loan applications—70,518 for home loans and 14,938 for business loans. The total approval rates for the previous disasters, in reverse chronological order, were Hurricane Irene, 37 percent; Hurricane Ike, 22 percent; Hurricane Wilma, 49 percent; Hurricane Rita, 37 percent; and Hurricane Katrina, 46 percent.

[14]SBA can cite more than one reason for declining an application. Of the 5,663 Hurricane Sandy applications that SBA denied, 1,020 (18 percent) had two or more decline codes.

[15]A withdrawn application is one that is removed from consideration before SBA decides to approve or decline. Either SBA or an applicant can withdraw a business loan application. The 14,558 figure for total applications omits 380 applications that remained in various stages of processing as of January 31, 2014.

Cancellations. Of the 4,180 business loan applications SBA approved for Hurricane Sandy, 1,578 (38 percent) had been cancelled as of January 31, 2014—a rate higher than for the other disasters.[16] The other cancellation rates ranged from approximately 22 percent (Wilma) to approximately 30 percent (Ike and Katrina). Of the business loans cancelled after Hurricane Sandy, borrowers requested cancellation of 1,171 loans (74 percent), while SBA cancelled 407 (26 percent). The most common reason for SBA-initiated cancellations was "failure to complete and return all loan closing documents," representing 336 cancellations (21 percent).

According to SBA, factors affecting the withdrawal and cancellation rates for Hurricane Sandy included higher rates of insurance coverage in the footprint of the disaster area and the availability of alternative sources of recovery aid (such as grants). Officials told us that the rollout of programs funded by the Department of Housing and Urban Development's Community Development Block Grant program began earlier than in past disasters, and that state grantees—specifically New Jersey and New York—obtained those funds and accepted applications for their respective state grant programs shortly after the disaster struck.

Half of the entities with which we spoke—selected business development centers and local business organizations in New Jersey and New York—provided perspectives on the most common reasons why applications were withdrawn after Sandy. For instance, business owners commonly withdrew applications because they had changed their plans for funding their recovery (for example, they may have received insurance claim proceeds or state grants). Entities also noted other reasons, such as frustration with waiting times for loan processing and a desire not to incur additional debt.

[16] SBA disaster loans can be cancelled after approval. A cancellation does not affect the calculation of SBA's approval rate—approved loans are recorded as approvals even if subsequently cancelled. Either SBA or the borrower can initiate a cancellation.

SBA Has Not Implemented Three Guaranteed Disaster Loan Programs Required by Law

In 2014 we reported that 6 years after Congress passed the Small Business Disaster Response and Loan Improvements Act of 2008, SBA had not piloted or implemented three guaranteed disaster loan programs, which therefore had not been available after Hurricane Sandy. As previously discussed, the act mandated the creation of the Immediate Disaster Assistance Program (IDAP), the Expedited Disaster Assistance Loan Program (EDALP), and the Private Disaster Assistance Program (PDAP). According to SBA officials, the agency opted to implement IDAP first, because the loan limit was lower than in the other two programs and SBA received appropriations to pilot this program.

We had examined SBA's implementation plans before 2014. In a July 2009 report, we noted that SBA was planning to implement requirements of the 2008 act, including pilot programs for IDAP and EDALP.[17] SBA requested funding to carry out requirements for the two programs in the President's budget for fiscal year 2010 and received subsidy and administrative cost funding of $3 million in the 2010 appropriation, which would have allowed the agency to pilot about 600 loans under IDAP. The agency issued regulations for IDAP in October 2010. In May 2010, SBA told us that its goal was to have the pilot for IDAP in place by September 2010.[18] We concluded that because the implementation process already was behind schedule, it would be important for SBA to ensure it had a plan to implement remaining requirements of the 2008 act and report on its progress to Congress. We therefore recommended that SBA develop an implementation plan and report to Congress on progress in addressing all requirements within the act and include milestone dates for completing implementation and any major program, resource, or other challenges the agency faced.[19]

However, as of August 2014, the pilot program for IDAP had not yet started. According to SBA officials, the program had not been implemented for two primary reasons: (1) information technology

[17]GAO, *Small Business Administration: Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, GAO-09-755 (Washington D.C.: July 29, 2009).

[18]GAO, *Small Business Administration: Progress Continues in Addressing Reforms to the Disaster Loan Program*, GAO-12-253T (Washington D.C.: Nov. 30, 2011).

[19]GAO-09-755.

challenges and (2) feedback from lenders indicating that program requirements might hinder lender participation.

First, the electronic systems that would be used to process IDAP applications did not interface smoothly. According to SBA officials, IDAP's readiness was in part based on the ability of E-Tran, the loan processing system for the 7(a) program, to interface with DCMS, the loan processing system for the Disaster Loan Program.[20] Officials said that a new information technology system was being developed—SBA One. They also said that for IDAP application processing, it would be more efficient to make DCMS interoperable with the new system than to enhance E-Tran.[21] At the time of our 2014 report, SBA anticipated that SBA One would be operational by early 2015.

Second, SBA told us that it received feedback from lenders on challenges that could discourage lenders from participating in the program, but documentation of the feedback was limited. In March 2010, SBA organized a forum with 11 lenders in the Gulf Coast to obtain their views on IDAP. Lenders stated the program had to have a simple eligibility determination and confirmation that a potential borrower had applied for an SBA disaster loan before the lender would approve an IDAP loan.[22] Lenders also expressed concerns about the possibility of guarantee

[20]Section 7(a) of the Small Business Act, as amended, codified at 15 U.S.C. § 636(a). The 7(a) program is intended to serve creditworthy small business borrowers who cannot obtain credit through a conventional lender at reasonable terms and do not have the personal resources to provide financing themselves. Under the 7(a) program, SBA guarantees loans made by commercial lenders to small businesses for working capital and other general business purposes.

[21]SBA One is described as an improved lending platform that will use one set of forms for all 7(a) loans; serve as a one-stop shop for all steps of the loan process, from determining eligibility through closing; and provide one data management system to measure and evaluate loan trends and performance.

[22]If an applicant receives a direct disaster loan, the applicant must use the proceeds to repay the IDAP loan before using the proceeds for any other purpose. 15 U.S.C. § 657c(n).

denials if an applicant did not take out an SBA disaster loan.[23] According to SBA, in 2010 the agency also conducted conference calls with Iowa lenders who expressed similar concerns about IDAP. However, SBA did not document either the Gulf Coast forum or the conference calls at the time of the events. Instead, SBA officials relied on the memory of staff present for these discussions. In response to our request for information on these efforts, in July 2014 SBA provided a one-page summary. The summary included a list of the Gulf Coast lenders but not of Iowa lenders, and the discussion of lenders' concerns was minimal.

In addition, according to SBA officials, in November 2012 the agency solicited informal feedback from lenders in Hurricane Sandy-affected areas about the usefulness of IDAP and its features. According to SBA officials, lenders were concerned about the statutory requirement that provides an applicant a minimum of 10 years to repay the IDAP loan if a loan through the Disaster Loan Program was not approved.[24] Lenders expressed disinterest in servicing a small loan amount (up to $25,000) for a term that long. SBA officials noted that lenders typically did not offer small-dollar loans such as those made under IDAP. SBA's IDAP regulations allow a lender to charge a borrower an optional application fee to recoup some of the loan processing costs, but the one-time fee may not exceed $250 and an IDAP lender generally may not charge a borrower any additional fees.[25] According to SBA officials, they also did not document lender feedback from this outreach effort. SBA officials told us that they obtained feedback on IDAP requirements from three banks, although officials could recall the identity of only one bank.

[23]If an SBA-guaranteed loan defaults, the lender must enter the guarantee purchase process by requesting that SBA honor the guarantee. During this process, SBA reviews whether the lender complied with the SBA loan authorization, SBA requirements, and prudent lending practices before making a decision to honor the guarantee. For more information on the guarantee purchase process, see SBA's website, http://www.sba.gov/category/lender-navigation/steps-sba-lending/7a-loans/guaranty-purchase, accessed on June 29, 2015.

[24]If an applicant received an IDAP loan before being declined for a direct disaster loan (through the Disaster Loan Program), the applicant would be required to repay the loan not earlier than 10 years after the date of final disbursement. 15 U.S.C. § 657n(d)(2). SBA regulations state that the maturity of an IDAP loan must be at least 10 years from the date of final disbursement, but no more than 25 years. 13 C.F.R. § 123.703(d)(2).

[25]Lenders may charge a late payment fee not to exceed 5 percent of the scheduled IDAP loan payment, and reasonable direct costs for liquidation.

In July 2014, SBA officials told us that the agency was still trying to conduct the IDAP pilot by attempting to identify solutions to increase lender participation. However, officials noted that the lenders with which they met were not willing to participate in IDAP (or an IDAP pilot) without changes to the statutory servicing term and the SBA regulatory fee. Based on lender feedback, SBA officials said that the current statutory requirements, such as the 10-year loan term, made a product like IDAP undesirable and that lenders were not likely to participate in IDAP unless the loan term were decreased to 5 or 7 years, for example. Congressional action would be required to revise statutory requirements, but SBA officials said they had not discussed the lender feedback with Congress. SBA officials also told us the agency planned to use IDAP as a guide to develop EDALP and PDAP, and until challenges with IDAP were resolved, did not plan to implement these two programs.

As a result of not documenting, analyzing, or communicating lender feedback, SBA might have lacked reliable information to guide its own actions and to share with Congress about what requirements should be revised to encourage lender participation. Such information could be obtained by conducting further outreach to lenders and documenting this outreach in accordance with federal internal control standards, which state that all transactions and other significant events should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.[26] We concluded that not sharing information with Congress on challenges to implementing IDAP might perpetuate the difficulties SBA faced in implementing programs intended to provide assistance to disaster victims. Therefore, in September 2014, we recommended that SBA conduct a formal documented evaluation of lenders' feedback to inform both itself and Congress about implementation challenges and about statutory changes that might be necessary to encourage lenders' participation in IDAP, and then report to Congress on the challenges SBA faced in implementing IDAP and on statutory changes that might be necessary to facilitate implementation.[27]

SBA officials recently provided us with a two-page summary of a discussion conducted with 23 lender and service provider participants in

[26]GAO/AIMD-00-21.3.1

[27]GAO-14-760

SBA's 7(a) program—17 bank lenders, 3 certified development companies, and 3 lender service providers—at a National Association of Government Guaranteed Lenders conference in October 2014.[28] Participants were provided general information on IDAP, and were asked to comment on specific statutory and regulatory requirements related to loan terms, maximum allowable interest rates, and restrictions on lender-imposed application fees. According to SBA's summary, participants expressed unwillingness to participate in a program with these requirements. While SBA thus has taken one step to solicit and document lender feedback, it has not adopted a plan for the steps the agency will take to implement IDAP (and by implication, the other two loan programs) or to reach a determination on whether IDAP or the other loan programs should be implemented.

Chairman Chabot and Ranking Member Velázquez, this concludes my prepared statement. I would be happy to answer any questions at this time.

GAO Contacts and Staff Acknowledgments

For further information on this testimony, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Marshall Hamlett (Assistant Director), Vaughn Baltzly (analyst-in-charge), John McGrail, and Barbara Roesmann.

[28] The association serves the needs of and represents the interests of the small business lenders that participate in SBA's 7(a) loan program.

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TESTIMONY of

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U.S. House of Representatives
Committee on Small Business

The Calm Before the Storm: Oversight of SBA's Disaster Loan Program

Wednesday, July 8, 2015

Good morning Chairman Chabot, Ranking Member Velazquez, and distinguished members of the Committee. Thank you for inviting me to discuss SBA's Disaster Loan Program. SBA appreciates your strong support of the agency's disaster operations and your continued leadership in making our country better equipped to deal with natural and other disasters.

I am James Rivera, the Associate Administrator for the SBA Office of Disaster Assistance (ODA). ODA is responsible for providing affordable, timely and accessible financial assistance following a disaster to businesses of all sizes, private non-profit organizations, homeowners, and renters. This financial assistance is available in the form of low-interest loans, and since SBA's inception in 1953, we have provided 2 million loans for more than $53 billion dollars.

SBA's Role in Responding to a Disaster:

SBA is not a "first responder" agency even though we are on the ground in the immediate aftermath of a disaster. SBA's primary focus is providing low-interest, long term loans as part of the recovery effort in coordination with other government partners at all levels. As part of an overall effort to assist survivors to get back on their feet, SBA's disaster home loans of up to $240,000 help local community residents return and rebuild their homes. Moreover, nonprofits and businesses of all sizes are eligible for loans of up to $2 million dollars.

Additionally, SBA offers Economic Injury Disaster Loans (EIDL) to small businesses, small agricultural cooperatives, and most private non-profit organizations who have suffered economic injury caused by a disaster. These loans provide working capital to a business or organization until normal operations can resume following a disaster.

Preparedness and SBA's Key Improvements to the Disaster Assistance Program:

SBA has made a number of improvements in recent years that have allowed us to better respond to disaster survivors. First, we have streamlined application forms and implemented a redesigned electronic loan application—which has led to a more transparent and efficient application process.

Over the past several years, SBA has seen significant increases in its Electronic Loan Application (ELA) activity. In Fiscal Year 2014, 79 percent of SBA disaster loan applications were submitted online using ELA, which was a substantial increase from previous years—27 percent in Fiscal Year 2011, 36 percent in Fiscal Year 2012 and 55 percent in Fiscal Year 2013. ELA activity continues to increase in Fiscal Year 2015, currently at 83 percent. The steady increase of ELA activity reflects the improvements made by SBA to streamline its online application and ensure that disaster survivors have access to ELA and program information. SBA's electronic loan application provides disaster survivors with immediate access to the disaster loan application and helps to ensure they have access to much needed disaster funds at the soonest possible time following a declared disaster.

Second, SBA has taken several steps to enhance its communication strategy and improve customer service to disaster survivors. Effective and clear communication to the public about the availability of disaster loans is critical to ensure that disaster survivors have access to funds for repairing and rebuilding homes and businesses at the soonest possible time after a declared disaster.

In 2014, SBA launched a new communications plan referred to as "The Three Step Process" when seeking SBA disaster loan assistance: Step 1) How do you apply for loan; Step 2) How do we verify your property and process your loan; and Step 3) How the loan is closed and funds disbursed. The new strategy ensures that disaster survivors have a clearer understanding of the steps involved when seeking SBA disaster loan assistance.

SBA also made another important improvement in its communication with disaster survivors in Fiscal Year 2014 by increasing direct contacts with potential disaster loan applicants. SBA now calls all disaster survivors referred by the Federal Emergency Management Agency (FEMA) to SBA within 48 hours and informs them of the availability of disaster loan assistance and the various ways to apply, including: 1) online using SBA's Electronic Loan Application (ELA); 2) in-person at a disaster recovery center; and 3) by mail. SBA supplements initial phone calls with follow-up calls, emails and in some cases a letter sent by mail. By increasing the number of direct contacts with potential disaster loan applicants, SBA helps to ensure that disaster survivors are aware of the availability of SBA disaster loan assistance and informed about the various ways to apply for assistance.

Third, SBA has implemented separate home and business loan processing tracks in order to mitigate processing delays in the future. After a disaster, homeowners normally apply for loans faster than small businesses. Typically, small business owners first assess the economic damage to their businesses caused by disrupted supply chains, displaced consumers, structural damage, inventory loss, and a range of other complex factors. As a result, businesses tend to apply for disaster loans later than homeowners and renters. Separate home and business loan processing tracks helps to ensure that business applicants do not face long delays as a result of submitting applications behind a large number of home loan applications which are being processed in the order they were received.

Fourth, in April 2014, SBA implemented a new regulatory that allows for a modified approval process (RAPID) for both home and business loans. In keeping with private lending practices, SBA recognized that applicants with higher credit ratings could generally be processed more quickly. The new RAPID approval process considers the applicant's credit without the need to complete the entire cash flow analysis and was made effective for disasters declared on or after April 25, 2014. Because the RAPID approval process provides an expedited processing channel for home and business loans, it also has the potential to ease the stress on SBA loan processing resources used to process files that require more time to complete.

As part of the regulatory change implementing the new RAPID approval process, SBA also raised the unsecured loan limit from

$14,000 to $25,000 on home and business physical disaster loans for Presidential (major) disaster declarations, and from $5,000 to $25,000 on EIDL loans for all declarations. The increased unsecured loan limit allows SBA to disburse more funds to disaster survivors faster which not only helps homeowners and businesses to jumpstart their rebuilding project, it could also help to speed up the recovery of businesses that offer critical services in communities.

On July 1, 2015, we released *SOP 50 3 8, Disaster Assistance Program,* a complete re-write of our standard operating procedures which brings a "back-to-basics" approach to SBA's loan making processes. The refreshed SOP collects for the first time our efforts made over the last several years to improve the disaster survivor's experience when applying for disaster loan assistance in several meaningful ways, including streamlining processes to help facilitate faster loan processing and disbursements, adding more underwriting flexibility to extend disaster loan assistance to more survivors, and helping business owners and homeowners in communities rebuild and prepare for future disasters. In an effort to improve the overall customer experience for disaster survivors, we have introduced new changes to the process and removed countless redundancies in the new SOP.

Response to Superstorm Sandy

A number of these improvements were made in response to lessons learned as a result of Superstorm Sandy. The effects of the devastation caused by Sandy were far-reaching. SBA approved more than $2.4 billion in disaster loans to help nearly 37,000 homeowners, renters, businesses and non-profit organizations recover and rebuild.

As reflected in SBA's Disaster Preparedness and Response Plan, ODA currently maintains 1,750 workstations in the Fort Worth processing and disbursement center and 350 more surge workstations in our Sacramento disaster center. During Sandy, we not only used the Ft. Worth location and our Sacramento surge space, but also expanded the loan processing footprint to include 50 workstations at the Buffalo Call Center. At the height of the response to Sandy, we had 2,451 employees engaged in disaster response. Additionally, SBA responded to the needs of residents and business owners by deploying 695 SBA disaster assistance workers and field inspectors to staff 248 Disaster Recovery Centers located throughout the East Coast. At these centers, SBA representatives provided one-on-one service to disaster survivors and personally met with disaster survivors to answer questions, explain SBA's disaster loan program and help complete disaster loan applications and close disaster loans. As such, during Sandy, SBA had more than 152,700 contacts in the field.

Superstorm Sandy disaster survivors in New York, New Jersey, Connecticut, Rhode Island, and Maryland—all of which received Presidential Disaster Declarations—were able to apply for home and business disaster loans online or in person at any of the Disaster Recovery Centers throughout the region. Disaster survivors

could also apply for business disaster loans at any of the 49 Business Recovery Centers (BRCs) run by SBA with additional assistance from local resource partners such as SBDCs, SCORE, and Women's Business Centers. Additionally, North Carolina, Virginia, West Virginia, and Puerto Rico received SBA Administrative Disaster Declarations, making affected homeowners, renters, and businesses eligible for SBA disaster assistance.

Many disaster survivors do not have easy access to television, radio or the internet. To address these situations, SBA has a telephone hotline, which also provides language translation services. For Superstorm Sandy, our Disaster Customer Service Call Center in Buffalo, New York, responded to over 212,200 calls with minimal wait times.

In closing, I appreciate the opportunity to update this Committee on SBA's disaster recovery effort for Superstorm Sandy and recent improvements to the Disaster Loan Program. We firmly believe that the reforms we have instituted have enabled us to be prepared to efficiently and effectively respond to the needs of our nation's disaster survivors. I look forward to answering any questions. Thank you.

AP

Loans impacting grant money for Sandy victims

By Emily C. Dooley - Associated Press | Sun, December 14, 2014

NEW YORK (AP) — When Superstorm Sandy left Denise Erickson's home with a collapsed foundation, a loan from the Small Business Administration looked like the best deal in town.

She got more than $150,000 from the SBA to help fix her family's Bellmore home, but the loan has left her with a $651 monthly payment and a serious case of buyer's remorse.

"It was either stop construction or take the loan and get home," said Erikson, whose family lived in a hotel and a rental while displaced. "Everything washed out and the entire house was compromised."

Some of the thousands of Sandy victims who jumped at SBA's offer in the storm's immediate aftermath say they didn't fully understand the potential repercussions of their loans. Now they regret taking them, saying they say ruined their chances for recovery grants and left them with monthly loan payments their neighbors don't have.

The confusion storm victims like Erickson experienced is emblematic of the convoluted nature of disaster recovery.

"It's a complicated process and not terribly user-friendly," said James W. Fossett, a senior fellow at Rockefeller Institute of Government and a professor at Rockefeller College of Public Affairs and Policy at University of Albany. "It wouldn't surprise me at all if people are frustrated and the rules are sometimes conflicted."

Immediately after a disaster, the Federal Emergency Management Agency offers help on the ground. FEMA also manages the National Flood Insurance Program so homeowners in flood-prone areas can get be prepared to rebuild before disaster strikes. And SBA loans can quickly get help to affected homeowners.

But relief money doled out as grants must be approved by Congress, which took months to do so after Sandy — unlike after Hurricane Katrina, when supplemental federal funding was approved within 10 days. Federal rules count loans as aid when applicants seek grants.

Erickson, who has two children and manages duty-free shops at Kennedy International and LaGuardia airports, applied to the New York Rising program for a grant once it got up and running with money from the U.S. Department of Housing and Urban Development, knowing

she might get a smaller grant because of the loan. But she was surprised when she was told the loan was the only aid she was entitled to.

"There was never the understanding that we would be pushed out of the (grant) program," said Erikson, who has tapped in retirement savings to help pay for losses uncovered by the loan and a flood insurance payout of more than $250,000.

Staten Island Taxpayers' Association president Dee Vandenburg, who has been helping residents with rebuilding, is among those critical of how grants are being handled.

"It's almost like anybody who took an SBA loan is being penalized," she said.

Erickson and the more than 32,000 other homeowners who took out $1.9 billion in SBA loans got aid right away — "If I didn't take the loan I would have lost the house," she said — but now can't get as much in grants, if they get any at all.

Though she is mindful that she is back home and many still awaiting grant money are not, Erickson said the loan payments are difficult to manage for her and her husband, a contractor.

"They should have never approved me for a loan," she said.

But federal officials say the programs have worked as they should. HUD funds, known as Community Development Block Grant disaster recovery allocations, can be the only lifeline for some disaster victims.

Those who have the "financial wherewithal" to take loans free up later relief money for those who need it, HUD Regional Administrator Holly M. Leicht said.

"That is a good thing from a public policy perspective if it means our money goes to serve more low- or moderate-income folks who probably couldn't afford a loan," she said.

Loan applicants were told the money could impact other funding availability, SBA spokeswoman Carol Chastang said. But advocates say people were forcefully encouraged to get loans without understanding the potential fallout.

"They felt pressure or they felt it was just a necessary part of the process," said Thomas Maligno, executive director of William Randolph Hearst Public Advocacy Center at Touro Law Center, which opened a law clinic for Sandy victims.

The loans can be costly even if people qualify. "Families very rarely can take on the extra money of an SBA loan," he said.

It used to be worse for disaster loan recipients. In the past, grant applicants who also got loans had the full value of those loans counted toward their aid entitlement, even if they didn't take the entire amount.

In 2013, HUD allowed states or municipalities distributing the funds to provide hardship assistance to people who also had SBA loans, in part because far more Sandy victims qualified for the loans compared to other disaster victims, HUD officials said.

In New York, for instance, a hardship waiver is available to SBA loan recipients if homeowner expenses - mortgage, utilities and the SBA loan payback amount - are equal to or more than 30 percent of total household income.

More than 1000 waivers have been approved by Build it Back and New York Rising. New Jersey offers the waivers also, though figures were not available.

Jordan Farkas, a day trader who also breeds and raises horses, took a $14,000 loan after his Long Beach house was flooded by a backed up sewer line and flood insurance would not cover many of his losses. He said he didn't want a loan but was told repeatedly to apply in order to be eligible for future federal aid.

Farkas paid off the loan eight months later, in part because the loan payback amount, with interest, would surpass $28,000. The $14,000 he got in a loan was deducted from his New York Rising award.

"Loans are not benefits," said Farkas, who has a wife and two children. "For us, especially for us, we took it and paid it right back. There was no benefit."

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

August 26, 2015

The Honorable Steve Chabot
Chairman
House Small Business Committee
U.S. House of Representatives
Washington, DC 20515

Re: Response to the hearing *The Calm before the Storm: Oversight of SBA's Disaster Loan Program*

Dear Mr. Chairman:

The U.S. Small Business Administration's (SBA) role in providing disaster assistance for small businesses, homeowners and others impacted by natural and other disasters is one of the Agency's most important roles, and one I take very seriously. I believe we must do everything we can to aid local communities, businesses and individuals in their efforts to rebuild and recover after what are unexpected and devastating events. The SBA is committed to working with Congress, other Executive Branch Agencies and the private sector to improve our ability to help communities recover. Of course, access to capital is one of the essential ingredients to such efforts. As a follow up to the House Small Business Committee's hearing, *The Calm before the Storm: Oversight of SBA's Disaster Loan Program,* on July 8, 2015, in which Associate Administrator for the Office of Disaster Assistance James Rivera testified on behalf of SBA, I wanted to share with you a few of our recent efforts to improve our processes and address some of the concerns raised during the hearing.

SBA's Disaster Assistance Program faced significant tests in responding to Hurricanes Katrina, Rita and Wilma in 2005 and Superstorm Sandy in 2012. Both the intensity and size of these major storms presented challenges and provided a number of lessons learned for SBA. Since that time, SBA's Office of Disaster Assistance (ODA) has worked to update its processes in significant ways in order to improve performance. ODA has automated significant portions of its application, processing and disbursement processes. Additionally, it has created separate tracks to process home and business loans to ensure that experts address each type of loan most effectively and efficiently. The SBA also recently completed an extensive revision to its Standard Operating Procedure, which included several changes that streamline documentation requirements for applicants and borrowers. While significant progress has been made, we continue to identify efficiencies and refine our capabilities to meet the future demands of big disasters.

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I understand that one of the primary concerns raised at the hearing involved the Immediate Disaster Assistance Program (IDAP), as well as the Private Disaster Assistance Program (PDAP) and the Expedited Disaster Assistance Program (EDAP). While the goal of having the private sector play an integral role in providing capital immediately after disasters is a laudable one, the inherent risk and cost of making such loans make the business proposition extremely difficult for the lending community. The challenge for these programs, as with all of our guaranteed loan programs, is that we must have willing partners to participate and make the loans. Based on universal feedback we have received through both formal and informal channels on IDAP, the current terms of the Program are not sufficiently appealing to engage potential bank participants. I am prepared to work with this Committee to find legislative solutions to this issue and am pleased to announce that SBA intends to gather additional feedback on all three of these guaranteed disaster loan programs from lenders and other stakeholders through the formal notice and comment process. The SBA plans to publish an Advanced Notice of Proposed Rulemaking (ANPRM) in order to formally solicit information from potential participants on what program terms would be required to make these programs palatable to lenders. The SBA will use this information to inform potential revisions to the IDAP regulations and to draft proposed regulations for EDAP and PDAP. Public comments may also be useful as we continue to discuss with leaders in Congress any potential legislative changes to the programs that might be required to improve their viability. I look forward to sharing that feedback with the Committee.

I will also note that due to the obstacles of accessing capital from the private sector immediately after a disaster, it is imperative that SBA's direct disaster loan program be as efficient and agile as possible. I believe the changes we have implemented post-Superstorm Sandy will improve the Agency's processing times during the next big disaster and allow us to be more responsive to disaster survivors. We are committed to serving disaster survivors as speedily as possible, while maintaining the necessary controls to ensure that all public resources are used properly.

As for IDAP, I would like to share information regarding the regulations that were promulgated on the Program, and also detail some of the steps SBA has already taken to better understand the hesitation on the part of our lending partners.

On October 1, 2010, SBA published an interim final rule implementing IDAP. The rule established that SBA would provide an 85 percent guarantee on IDAP loans of up to $25,000 made by participating lenders. The rule was open for public comment until November 30, 2010. No comments were received. In addition to the regulations, SBA drafted forms and procedural guidelines for the program and made systems changes to allow the electronic loan processing systems for the disaster loan and 7(a) Guaranteed Loan Programs to interface.

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The SBA conducted an October 2014 evaluation of IDAP with 23 stakeholders, including bank lenders, Certified Development Companies, and Lender Service Providers, at the annual conference of the National Association of Government Guaranteed Lenders (NAGGL). At this meeting, participants provided comments and feedback on several IDAP components, as well as other regulatory and policy features of the program. The main topics of concern addressed by the lenders included:

1. The statutory requirement for lenders to provide a minimum 10 year repayment term on any IDAP loan that could not be repaid from an approved SBA disaster loan;

2. The maximum interest rate an IDAP Lender may charge an IDAP Borrower, currently set at PRIME plus one percentage point, as published in the Federal Register; and,

3. The regulatory cap on lender-imposed application fees of $250.

The participants were unanimous in their objection to the statutory requirement of a minimum 10-year "term-out" of any IDAP loan that could not be repaid from an approved SBA disaster loan. The participants also universally responded that lenders use interest rates and loan fees to offset the risk of loans made immediately following a large disaster and that, without the ability to charge for this risk, lenders would remain highly resistant to offering this loan product. Despite lenders' hesitation to participate in this particular loan program, the majority of lenders also strongly expressed their desire to ensure small businesses have access to needed credit in the aftermath of a disaster.

I would welcome any feedback you receive from lenders and I would be happy to help facilitate further discussions with the lending community on how we can better serve our disaster survivors. Thank you for your strong support of SBA's disaster operations and your continued leadership in making our country better equipped to deal with natural and other disasters. If you have any other questions or concerns, please do not hesitate to contact me directly, or have your staff contact Thaddeus Inge, SBA Associate Administrator for Congressional and Legislative Affairs, at (202) 205-6634.

Respectfully,

Maria Contreras-Sweet